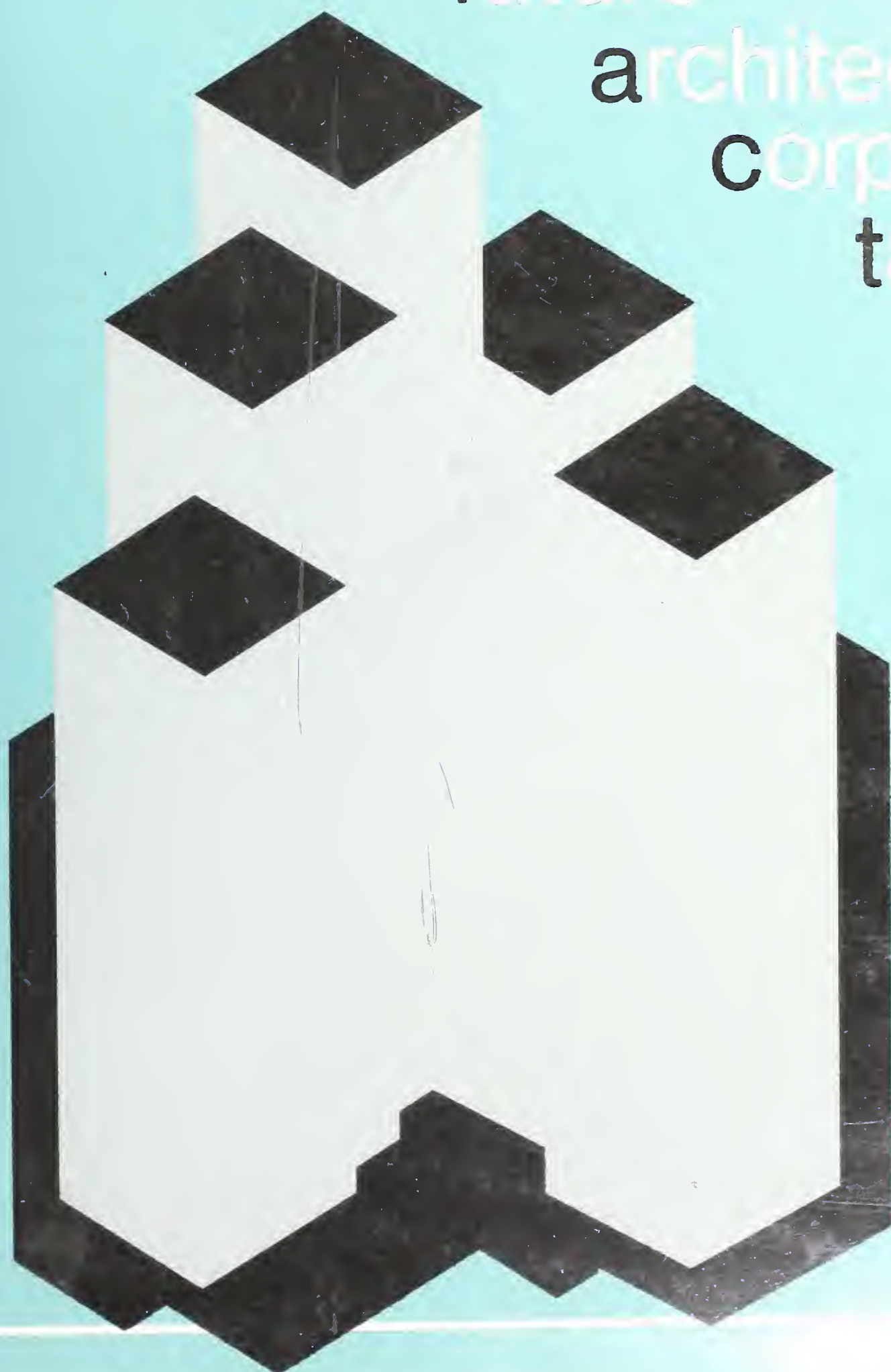


future  
architecture of  
corporations  
tax  
system







Refer to: D.P. Edwards

Date: January 20, 1981

MEMO TO: Library

SUBJECT: Revised FACTS Report (Section 6.0)

Attached please find copies of fully revised documents as mentioned in the above subject. Kindly arrange to have them incorporated in your total FACTS report. For reference purpose, you may also wish to keep your old section 6.0 report. You will note that some changes in priorities have been established, along with the need for some additional funding to complete FACTS developments in fiscal 1984/85.

We are currently planning a submission under the Incentives Program for an amount of \$463,950 respecting Systems Development. This will enable us to carry out the recommendations for the 1981/82 fiscal.

The benefits as projected in FACTS are now being realized for current year developments. Additional benefits will be realized as our present developments are completed.

D.P. Edwards  
Senior Manager, Planning

DPE/nep

Attached

11

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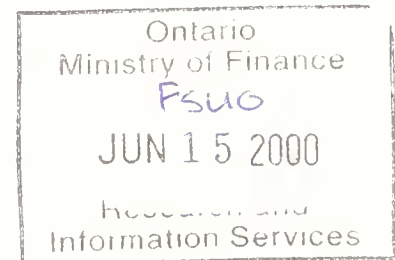




Ministry  
of  
Revenue

**F.A.C.T.S.**

**Future Architecture  
of the  
Corporations Tax  
System**



**Final Report**

Volume 2 of 2

June 30th, 1979  
Planning Project: CT 144

Corporations Tax Branch  
Management Systems Branch

MINISTRY OF REVENUE

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## 6.0 IMPLEMENTATION STRATEGY

This section outlines an implementation strategy for the projects that result from the recommendations made in the FACTS report.

### 6.1 General

It is recommended that the development of projects be undertaken in the overall context of the FACTS plan as it affects the legislation, training of staff, procedural changes, and organization, as outlined in the relevant sections of this report. The projects should not therefore be considered, funded, developed, or implemented in isolation. The greatest synergetic effect will be achieved through an integrated approach to development since implementation of a project directly affecting one function might have beneficial side effects on another function, (e.g. word processing, and data entry).

#### Purpose

It is emphasized that the implementation of the projects will be dependent on the availability of resources and adequate funding (either through the Zero-Based-Budget programme or from elsewhere) and will be subject to disruptions from legislative changes arising from provincial budgets or relocation plans for Oshawa. Nevertheless, the purpose of the implementation strategy as outlined in this section is to provide a step by step programme of development projects that will assist the Corporations Tax Branch in achieving its operational goals while aligning its major functions with the Revenue Division plans.

### Future Revisions

It should be noted that, as the FACTS strategic plan evolves, paragraphs, pages, and even sections, of this report will be subject to alteration and re-issue. It is probable that Section 6.0 above all other areas of this report will undergo revision and modification since implementation plans are subject to change from many factors including the availability of funds and resources. Section 6.0 therefore is likely to be re-issued on a regular basis and to be used in the preparation of Zero Based Budget submissions by Corporations Tax Branch.

## 6.2 Packaging Of Recommendations

In this section the recommendations made in the FACTS report are grouped into development packages based on logical association by function, similarity of nature, and overall timeliness.

The main advantage of this process is to reduce the number of events to be scheduled while at the same time co-ordinating an approach to those projects with a higher priority or with a potentially greater cost/benefit return that incorporates the inter dependency of the recommendations, since in many instances a stage in the development plans must be completed before the next recommendation can be acted upon.

### Packaging By Fiscal Year

Packaging of the recommendations is sub-divided into the fiscal period in which projects will be initiated in order to emphasize the most advantageous timing and scheduling of the implementation. A further feature in this section is the generic title given to each package and the reference number that provides a convenient short form cross-reference for later sections. Each package also identifies the major function or cost centre affected by the recommendations contained within it.

It is to be noted that the packages grouped within both the 1981/2 fiscal year and the subsequent 1982/3 fiscal period are impacted by the planned relocation of the Ministry of Revenue to Oshawa. The extent of the proposed development is therefore limited since it is planned not to introduce changes of a non-essential nature into the operational environment for a period of 6 months prior to, and after, the physical relocation.



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6.2.1      1979/80 Development Packages

Description

Function

80 A:    Billing Changes

- .      Allow LCB reassessments to be made direct by capturing tax before loss figures from the audit worksheet;      Reassessment
- .      eliminate the requirements to re-open instalment interest calculations for decrease reassessments;
- .      eliminate unnecessary basic assessment conditions;      Assessment
- .      produce direct assessments which can be routed to pertinent sections of the Branch;
- .      effect printing of final reassessment notices for the remaining basic reassessments through the computer system rather than the word processing system;      Word Processing
- .      effect the printing of final assessment notices for the remaining basic assessments through the computer system.

80 B:    Lien Provision

- .      Eliminate lien provision from The Corporation Tax Act.      Lien

80 C: Remittance Enhancements

- . Enhance the information retrieval system to complement the revised allocation procedures; Remittance Processing
- . develop an instructional training programme for Remittance Processing Centre allocation procedures;
- . install printer terminal in Revenue Processing Centre to allow all remittances to be captured using OCR equipment;
- . implement direct bank deposit and electronic fund transfer methods for capturing remittance data.

80 D: Filing System

- . Initiate the revised filing system and associated document retention recommendations. Filing

80 E: Inquiries

- . Revise the remittance advice form to present an enhanced accounting format; Inquiry
- . enhance the accounting format of all billing documents.
- . increase the number of CRT screens available to the Inquiry section.

80 F: Returns (Stage 1)

- . Realign the sequencing and batching functions for returns processing in accordance with the segregated fast path procedures and revised return inventory control; Returns
- . implement the segregated fast path return processing procedure for minimum tax corporations.

80 G: MCCR Interface

- . Improve operational interface with the Ministry of Consumer and Commercial Relations; New Companies
- . revise procedures for acquisition of initial taxpayer information through CCR.

80 H: Management Information System (MIS)

- . Compile the forecasting, inventory and performance requirements of the Branch and develop computer system specifications and presentation criteria; Management Information
- . develop an information system data base from current "totals" data base nucleus.

80 I: On-Line Study

- . Investigate on-line update capabilities for address changes. Tax Roll





6.2.2    1980/81 Development Packages

<u>Description</u>	<u>Function</u>
--------------------	-----------------

81 A:    Refund Automation

- |   |         |
|---|---------|
| <ul style="list-style-type: none"><li>.     Produce code 4 turnaround documents for direct refund reassessments;</li><li>.     implement a procedure whereby the approval of the code 4 journal entry constitutes approval of the refund;</li><li>.     facilitate the cheque requisition procedure by supplying a magnetic tape to MOGS.</li></ul> | Refunds |
|---|---------|

81 B:    On-Line Updating

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>.     Provide on-line update capabilities for tax roll changes;</li></ul>   | New Companies<br>Cancellations<br>Investigations |
| <ul style="list-style-type: none"><li>.     provide on-line update capabilities for effecting non-tax data changes in the return acceptance procedures;</li></ul> | Returns  |
| <ul style="list-style-type: none"><li>.     develop on-line updating capabilities for collection input;</li></ul>   | Collection<br>Default                            |
| <ul style="list-style-type: none"><li>.     establish branch-wide training procedures for the on-line system;</li></ul>   | Training &<br>Personnel<br>Security              |
| <ul style="list-style-type: none"><li>.     provide on-line capability to cancel audit worksheets;</li></ul>  | Audit<br>Discretionary                           |

- . modify the Corporations Tax data base to: Computer System
- accommodate effective dates of inactivity, transaction application dates, dates of consents, tax base figures (see 80 A), default receipt indicator, correspondence issuance indication (see 80 D), additional address, amalgamated account references, etc.;
- retain historical return and billing information, and maintain a cross-reference to old names.

81 C: FDA

- Eliminate the extended financial data collection function of the FDA service (or instigate charge back concept for limited FDA programs).

81 D: Tax Adjustments

- |   |  |                          |
|---|--|--------------------------|
| • | Endorse the self-assessing principle for initial billing by eliminating pre-billing tax adjustments; | Returns                  |
| • | automate amended and LCB returns based on a policy of accepting the taxpayer's revised estimate;     | Non-Discretionary Audits |
| • | automate federal notices of re-assessments according to the legislation involved.                    |                          |

81 E: Returns (Stage 2)

- . Automate audit selection scoring for Returns  
minimum tax corporations.

81 F: Data Purging

- . Implement automated purging scheme Computer  
for:- System  
(i) inactive account information  
(ii) active account information
- . develop a sub-system for re-instate-  
ment of purged account data.



6.2.3      1981/82 Development Packages  
(April, 1981 - December, 1981)

<u>Description</u>	<u>Function</u>
--------------------	-----------------

82 A:    Compliance Support

- |  |                                      |
|--|--------------------------------------|
| .      Realign computer system outputs to complement selective manual follow-up collection and default procedures; | Collections & Default                |
| .      introduce harsher penalties and interest rates for non-compliance;  |                                      |
| .      accelerate cancellation programme to act as follow-up to compliance actions;                                | Cancellations, Collections & Default |
| .      implement a policy of applying and reapplying payments to arrears;  | Collections                          |
| .      automate interface for advising Revenue Canada of cancellation proceedings.                                 | Cancellations                        |

82 B:    Returns (Stage 3)

- |  |         |
|--|---------|
| .      Separate manual audit selection scoring from return acceptance procedure. | Returns |
|--|---------|

82 C: Interactive Processing

- |   |                                   |
|---|-----------------------------------|
| · Implement daily updating of cash transactions;  | All functions                     |
| · implement a delayed billing system to allow for the repair of basic assessment conditions;                  | Assessment                        |
| · develop the on-line system to assist in the interest calculations, etc., of the manual billing procedures;  | Reassessments/<br>Assessments     |
| · establish output holding data bases to facilitate on-line checking procedures and audit trail requirements; | Computer<br>System                |
| · develop the on-line system to indicate the receipt of default returns.                                      | Default &<br>Return<br>Processing |

82 D: Computer Aided Instruction (CAI)

- |  |                                   |
|--|-----------------------------------|
| · Implement computer based training as an aid for operational personnel development; | Training &<br>Personnel           |
| · establish a Branch-wide Information and Inquiry Service.                           | Inquiry,<br>Audits, &<br>Tax Roll |

82 E: Appeals

- |   |         |
|---|---------|
| · Discontinue the practice of supplying original returns to Appeals Branch; | Appeals |
| · Separate monthly objection reporting from CT statistical processing;      |         |
| · Provide on-line update capabilities for appeals information.              |         |

82 F: Refund Cheque

- . Consolidate the printing and mailing Refunds  
of refund cheques and Notices of  
Assessment.







83 D: Enhanced Interfaces

- . Establish indices for enhanced interfaces  
(e.g. Federal, Appeals, MCCR, other Revenue  
Division agencies);
- . instigate a periodic checking programme      Tax Roll  
for Tax Roll content against 3rd party  
electronic data.

6.2.5      1983/84 Development Packages

Description

Function

84 A:    Word Processing Link

- |   |   |                    |
|---|---|--------------------|
| . | Implement a communication link between the main computer system and CT word processing to promote easier access to name and address information, etc. | Word<br>Processing |
|---|---|--------------------|

84 B:    Compliance Communications

- |   |  |                          |
|---|--|--------------------------|
| . | Establish a Revenue Division compliance agency;                                  | Collections &<br>Default |
| . | introduce arbitrary assessment measures for selected default accounts;           |                          |
| . | provide on-line "scratch-pad" to assist in manual compliance follow-up actions;  |                          |
| . | provide increased access via CRT to Divisional and other Government information. |                          |

84 C:    Tax Roll Enhancements

- |   |   |   |
|---|---|---|
| . | Automate consent letter and follow-up programme for taxpayer initiated removals and reinstatements; | Taxpayers '<br>Removals and<br>Reinstatements |
| . | automate "K" status follow-up programme.  | Tax Roll<br>Investigation                     |

84 D: Returns (Stage 4)

- . Develop a complete automated scoring system for all returns; Returns Processing
- . pursue the concept of capturing returns information via OCR techniques for all data to be captured.

6.2.6 1984/85 DEVELOPMENT PACKAGES

85 A: Future On-Line Feasibility Studies

- . Provide on-line updating capabilities for effecting tax data changes in the audit worksheet acceptance procedures; Audit
- . develop the on-line system to enhance the use of office automation techniques. All Functions



6.3 Recommended Event Schedule

This section displays chronologically the recommendation packages developed in the previous section. Although it shows the expected duration of each development package where it exceeds one fiscal period, no attempt has been made to determine a rigid schedule for the packages within each fiscal year, thereby allowing maximum flexibility to the detailed planning activity immediately prior to undertaking development; however, a general indication of package priority is given by its relative sequence within the package group for each fiscal period.

EDP Development Investment

Each package in the six fiscal period schedules shown in Figures 6.3.1 - 6.3.6 has associated with it an estimated EDP development cost for that package. The sum of development costs by group of packages within each fiscal period is shown at the bottom of the appropriate fiscal year column.

Total Development Investment

A summary of the total EDP Development Investment associated with the FACTS recommendations is scheduled in Fig. 6.3.7 by fiscal period. It highlights the lack of development investment in the 1982/83 relocation year and emphasizes the postponement of normal development and the transfer of funds into the following fiscal period.

Recommendation Package		Prior Years	80/81	81/82	82/83	83/84	84/85
Ref. no.	80A		\$36,400				
	80B		\$2,400				
	80C		\$4,600	\$11,000	\$5,300		
	80D		\$22,700				
	80E		\$9,000				
	80F		\$11,300				
	80G		0	0			
	80H		\$7,100	\$12,000	\$20,500	\$32,000	
	80 I	\$12,800					
COST OF EDP INVESTMENT *		\$12,800	\$93,500	\$23,000	\$25,800	\$32,000	

\* Shown by package of recommendations within fiscal period

FIGURE 6.3.1



Recommendation Package		Ref. no.	Prior Years	80/81	81/82	82/83	83/84	84/85
REFUND AUTOMATION	81A			\$13,000				
				\$44,100	\$130,900			
ON-LINE UPDATING	81B							
F D A	81C			\$6,600				
TAX ADJUSTMENTS	81D			\$3,000	\$41,650			
RETURNS (STAGE 2)	81E				\$5,400			
DATA PURGING	81F			\$20,800				
COST OF EDP INVESTMENT *				\$87,500	\$177,950			

\* Shown by package of recommendation within fiscal period

FIGURE 6.3.2

Recommendation Package	Ref. no.	Prior Years	80/81	81/82	82/83	83/84	84/85
COMPLIANCE SUPPORT	82A			\$21,300	\$13,900		
RETURNS (STAGE 3)	82B			\$4,400			
INTERACTIVE PROCESSING	82C			\$6,250	\$10,000	\$91,600	\$10,000
COMPUTER AIDED TRAINING	82D			\$41,800			
APPEALS	82E			\$13,650			
REFUND CHEQUE	82F			\$17,400			
				\$104,800	\$23,900	\$91,600	\$10,000

FIGURE 6.3.3

Recommendation Package	Ref. no.	Prior Years	80/81	81/82	82/83	83/84	84/85
DATA DICTIONARY	83A					\$15,000	\$15,000
ENHANCED ON-LINE	83B			\$15,200	\$44,800	\$50,000	
AUDIT PROCEDURES	83C				\$9,150	\$40,000	\$10,000
ENHANCED INTERFACES	83D					\$43,900	\$5,000
COST OF EDP INVESTMENT *				\$15,200	\$53,950	\$148,900	\$30,000

\* Shown by package of recommendations within fiscal period

FIGURE 6.3.4

Recommendation Package		Ref. no.	Prior Years	80/81	81/82	82/83	83/84	84/85
WORD PROCESSING LINK		84A					\$9,700	\$5,000
COMPLIANCE COMMUNICATIONS		84B					\$31,750	\$10,000
TAX ROLL ENHANCEMENTS		84C					\$19,800	
RETURNS (STAGE 4)		84D					\$61,000	\$50,000
COST OF EDP INVESTMENT *							\$122,250	\$65,000

\* Shown by package of recommendations within fiscal period

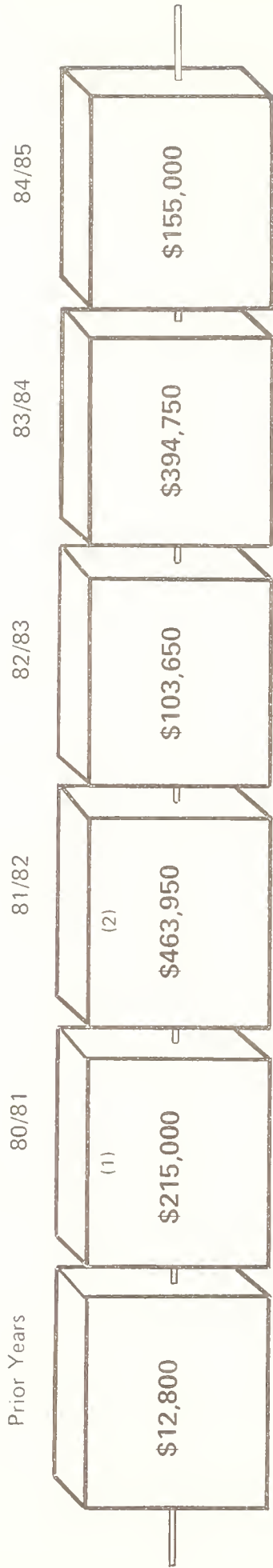
FIGURE 6.3.5

Recommendation Package		Ref. no.	Prior Years	80/81	81/82	82/83	83/84	84/85
FUTURE ON-LINE		85A						\$50,000
COST OF EDP INVESTMENT *								\$50,000

\* Shown by package of recommendations within fiscal period

FIGURE 6.3.6

# TOTAL EDP DEVELOPMENT INVESTMENT BY FISCAL PERIOD



- (1) Includes \$34,000 additional investment for Planning Section support (Contract Resources).
- (2) Includes \$143,000 additional investment for Planning Section support (Contract Resources)

FIGURE 6.3.7

## 6.4 Cost/Benefit Analysis

Because of the complexity of this cost/benefit analysis section, it is divided into two sections, each dealing with one major aspect of the analysis. Following are some general comments which apply throughout section 6.4.

### Assumptions

For the purpose of this analysis it has been assumed that the workload within Corporations Tax Branch will increase by 60% over the next five years in accordance with recent historical trends. However some functions of the Branch not subject to external workload influences (e.g. FDA) have been projected on a straight line basis with little or no increased resources requirement.

It has also been assumed that the same work efficiency rate per classification will be maintained and that there will be no substantial reduction in working hours or substantial increase in paid vacations and holidays. Furthermore, it is anticipated that the same level of complexity in legislation will remain constant except for those items of deregulation already identified.

### Trends Affecting the Cost/Benefit Analysis

Throughout the analysis all calculations are based on 1979 rates. This applies to both costs and tangible benefits. However in real world terms these are likely to be impacted by the trends described on the following page.



### Computer Costs

Production computer costs should benefit over the next five years from lower unit costing, especially in the areas of electronic data storage and on-line processing charges. Although Corporations Tax Branch does not benefit directly from reductions in manufacturers' charges, the Communications and Computer Services Division of Government Services has traditionally reduced actual charges per unit of work by 3%-4% per annum (in the face of inflation) and is expected to maintain this trend over the near future.

### Development Costs

Development costs are increasing rapidly and are not expected to slow down significantly over the five year period owing to the scarcity of competently trained systems development personnel: development costs therefore are understated and will increase in real terms annually, although higher programming productivity might offset these increases to some degree.

The schedule of development might also be adversely affected by current and projected market place conditions for business systems and data processing resources-(in addition to legislation, relocation, and other considerations)- because of the Ministry's dependency on contracted personnel to supplement its own available skilled development staff.

### Salaries & Benefits

Salaries will likely increase relative to the rate of inflation and therefore many of the tangible benefits of the FACTS recommendations will be understated in dollar terms since most contribute to cost avoidance in the area of salaries.



#### 6.4.1 Projected EDP Expenditures

The emphasis in this section has been placed on estimating both development costs and computer production costs. Maintenance costs have been projected on a straight line basis.

##### 6.4.1.1 EDP Development Costs

Costs for EDP Development are those which occur once only and include the investment charges for analysis, programming and computer time. Also included where applicable are those costs for technical support and business systems and those planning officer costs directly attributable to the FACTS projects, including training for operational staff and project research.

Figure 6.4.1.1 shows a breakdown of mandays and dollar expenditures for each type of resource requirement within fiscal period for all FACTS recommendation packages. Also shown is the per diem rate used as the basis of the arithmetic extension, and a total by resource category over the total development period.

## Projected EDP Development Requirements

CLASSIFICATION	RATE	F A C T S											
		Prior Years		80/81		81/82		82/83		83/84		84/85	
		M/Days	\$	M/days	\$	M/days	\$	M/days	\$	M/days	\$	M/days	\$
SYSTEMS ANALYST	\$190	67	12,800	137	26,100	360	68,400	85	16,150	720	136,800	465	88,350
ANALYST PROGRAMMER	\$170			505	85,850	510	86,700	290	49,300	485	82,450	50	8,500
PROGRAMMER	\$140			40	5,600	50	7,600	50	7,000	120	16,800		
PLANNING SYSTEMS ANALYST	\$190									180	34,200	100	19,000
BUSINESS SYSTEMS ANALYST	\$190			299	56,800	445	196,200			40	7,600	35	6,650
MACHINE COSTS	-				40,650		105,050		31,200		116,900		32,500
DEVELOPMENT INVESTMENT		67	12,800	981	215,000	1365	463,950	425	103,650	1545	394,750	650	155,000

FIGURE 6.4.1.1

#### 6.4.1.2 EDP Production Costs

Costs for EDP Production are those expenditures on data processing which are of a continuing nature and which are subject to variances in volumes of input, processing, and outputs. The increasing volumes of production are reflected in the Base Production Cost line of Fig. 6.4.1.2.1 which shows an annual growth in expenditures in 1979 dollar terms. In addition to this volume related increase in production costs, Fig. 6.4.1.2.1 also shows the estimated incremental expenses related to the FACTS recommendations scheduled for each fiscal year.

The EDP Production total line therefore reflects both the increased costs due to the projected volume growth in the tax roll and the estimated incremental expense due to FACTS, which in each subsequent fiscal period becomes integrated with the base production costs.

It is to be noted that all costs are expressed in 1979 dollars and are therefore subject to any benefits in price/performance arising from advances in computer technology. No change in production costs directly attributable to the relocation plans of the Ministry is reflected in these projections since the requirements for a revised computer production support system in Oshawa have not been finalized. However the geographical separation from the government data centres would indicate some increase over the costs shown here, at least in communication rates for the on-line production system.

Projected EDP Investment ; Production

	F A C T S							
	79/80	80/81	81/82	82/83	83/84	84/85	85/86	TOTAL
BASE PRODUCTION COST	560.9	577.6	596.3	617.3	640.8	667.1	696.5	3795.6
PRIOR YEAR INCREASE B/FORWARD	—	—	7.7	56.4	66.4	114.6	143.6	388.7
FACTS (NET) INCREASE	—	7.7	48.7	10.0	48.2	29.0	25.0	168.6
TOTAL	560.9	585.3	652.7	683.7	755.4	810.7	865.1	4352.9

FIGURE 6.4.1.2.1

## Unit Cost Analysis

To assist in projecting as accurately as possible the costs shown in Figure 6.4.1.2.1, it was necessary to analyze those elements of cost most sensitive to volume increases in workload. This section describes the procedure used for the analysis and records the results for documentation and future reference.

It is emphasized that the unit cost analysis examined only the hitherto unknown elements of the annual production projections shown on Figure 6.4.1.2.1 and therefore reflects only the "update processing" cost for EDP production. Not included in the analysis were those elements of cost already available such as data base storage charges, spooling, paper cost, information retrieval, etc. Also excluded from the analysis were other Corporations Tax Branch systems such as Monthly Statistics, Information Retrieval, Year End Processing, etc. However these items have been included in the total EDP Production Investment projections shown in Fig. 6.4.1.2.1.

### Procedure

The Corporations Tax Production System is divided into "transaction updates" and report generation or "production updates". For purposes of the analysis, a sample of six transaction runs and three production runs was selected spanning updates number 645 through number 662.

The calculations involved: total run costs, the number of data entry (100 byte) records, transaction volumes by each transaction type, production volumes by output type, and total data base calls (performed by the Data Base Management System) for both transaction update processing and production processing.

ESTIMATED UNIT COST – TRANSACTION FUNCTIONS

Function Code	Function Description	Cost Centre	Unit Cost (\$)	Per Annum	
				Volume	Total Cost
02	New Company	Investigations	.04	28,000	\$ 1,120
03	Statistical Change	Investigations	.02	38,000	760
04	Name Change	Investigations	.015	100	2
05	Address Change	Investigations	.029	70,000	2,030
06	Cancellation	Cancellations	.01	18,000	180
07	Collection	Collections	.01	5,000	50
08-0, 8	Journal Transfer	Assessments	.029	9,000	261
08-1, 5, 6	Cash 1 – 444,000 5 – 20 6 – 2,000	Assessments	.053	446,020	23,640
08-2	Interest Adjustment	Assessments	.02	25,000	500
08-3	Interest Waiver	Correspondence	.13	115	15
08-4	Refund	Refunds	.016	30,000	480
08-91	Assessment	Assessments	.032	14,400	461
08-94	Reassessment	Assessments	.06	20,000	1,200
09	Money Adjustment		N/A	N/A	N/A
10	Objections		.015	N/A	N/A
11, 14	Returns 11 – 200,000 14 – 530	Screening	.059	200,530	11,832
12	Liens	Liens	.01	1,500	15
13	Audits	Non-Disc Audit	.016	35,000	560
		Disc Audit Desk		10,000	160
		Disc Audit Field		1,000	16
21	Audit worksheets (basic)	Non-Disc Audit	.217		2,175
		Disc Audit-Desk		Sec Note	703
		Disc Audit-Field			52
	Audit worksheets (direct)	Assessments	.148		3,926
24	Ledger history	Assessments	.15	3,000	450
35	Account history	Investigations	.19	1,250	238
				\$ 50,824	

Note-  
COST ALLOCATION  
OF AUDIT WORKSHEET  
ACCEPTANCE

Cost Centre	BASICS			DIRECT			Total
	Volume	\$	%	Volume	\$	%	
AUDIT							
-Non-discretionary	23,000	1,997	40	2,000	178	60	2,175
-Desk	3,700	321		4,300	382		703
-Field	600	52		0	0		52
ASSESSMENT	ALL	3,554	60	ALL	372	40	3,926

FIGURE 6.4 1 2.2



ESTIMATED UNIT COST – PRODUCTION FUNCTIONS

Function Code	Function Description	Cost Centre	Unit Cost (\$)	Per Annum	
				Volume	Total Cost
02	Installment remittance advices	Assessments	.038	500,000	\$ 19,000
03	CT23 returns	Investigations	.041	200,000	8,200
05	Default worksheets	Default	.087	6,000	522
06	Default letter 145-1	Default	.042	28,000	1,176
08	CT8 returns	Investigations	.041	530	22
09	Default letter pre-145	Default	.052	42,000	2,184
13	Default letter 145-2	Default	.034	64,000	2,176
14	Assessment (Direct)	Assessments	.229	140,000	32,060
14	Assessment (Basic)	Assessments	.259	15,000	3,885
17	Final payment advices	Assessments	.038	200,000	7,600
31	Audit worksheets	Non-Disc.	.103	25,000	2,575
		Disc.-Desk		10,000	1,030
		Disc.-Field		1,000	103
15	Collections stage 1	Collections	.076	25,000	1,900
16	Collections stage 2	Collections	.079	15,000	1,185
22	Collections stage 3	Collections	—	—	—
32	Cancellation inventory (Coll)	Cancellations	.015	1,000	15
33	Cancellation advices (Coll)	Cancellations	.194	12,000	2,328
36	Cancellation inventory (Def)	Cancellations	.028	1,000	28
37	Cancellation advices (Def)	Cancellations	.201	8,000	1,608
38	Cancellation letters	Cancellations	.034	14,000	476
34	Cancellation (CCR file)	Cancellations	.034	12,500	425
					\$ 82,990

Annual Update Processing Total Costs	\$ 133,814
--------------------------------------	------------

FIGURE 6.4.1.2.3

## Transaction Processing

The unit cost per processing function is determined from activity against the data base. To establish the number of data base calls (or activity) for each processing function it was necessary to examine the update program structure by means of the pseudo code documentation. Multiplying the volume of each transaction type by this activity factor produced the percentage of the total data base activity absorbed by each processing function within each run. By calculating the cost for a single data base call, it was possible to determine, by a process of multiplication, the costs incurred by each processing function. In addition to the objective data base call activity derived from the computer program, a more subjective complexity factor was added to those processing functions involving more complex than normal computations (e.g. billing) or extensive reporting.

## Production Processing

A similar series of calculations was involved in the analysis of production processing except that the total run costs were first adjusted by the value of the data base scanning process (estimated at \$400.00) and also reduced by the estimated transaction processing portion of the production run, calculated at three cents (\$0.03) per data entry transaction record which was the average cost per record over the six sample runs.

## Analysis Results

The estimated unit cost for each transaction function is shown in Figure 6.4.1.2.2 while Figure 6.4.1.2.3 displays the unit cost for each production function. In both cases the relevant code and the cost centre affected are included for each function description in addition to the unit cost, annual volume, and annual costs.



#### 6.4.1.3 Total EDP Investment Summary

The three major elements of the EDP Investment cost centre comprise Development, Production and Maintenance. Sections 6.4.1.1 and 6.4.1.2 dealt with Development estimates and Production projections respectively. Maintenance has been projected at a constant level although the demands of more complex on-line updating might exert upward pressure on this cost centre.

Figure 6.4.1.3 shows a summary of the projected total EDP Investment, combining the individual elements of development, production and maintenance into totals by fiscal period and by element type.

A small decline in total expenditure for 1982/83 fiscal period is indicated in the projection in accordance with the lower development efforts during the year of relocation of the Ministry to Oshawa. A similar decline in the 1985/86 fiscal year reflects the termination of the FACTS development plan in the prior year and will likely be subject to an increase according to the amount of identified new development required in the 1985/86 fiscal year. Because of the high development expenditure required in the post relocation year to compensate for the development hiatus in 1982/83 it is also likely that spillover could occur into the 1985/86 year.

Projected EDP Investment : Total Expenditures

	F A C T S						TOTAL
	79/80	80/81	81/82	82/83	83/84	84/85	85/86
DEVELOPMENT	141.0	215.0	463.9	103.6	394.7	155.0	No FACTS Development 1,332.2
PRODUCTION	560.9	585.3	652.7	683.7	755.4	810.7	865.1 4,352.9
MAINTENANCE	239.6	240.0	240.0	240.0	240.0	240.0	240.0 1,440.0
TOTAL	941.5	1,040.3	1,356.6	1,027.3	1,390.1	1,205.7	1,105.1 7,125.1

\* Includes \$12,800 for FACTS development in 79/80

FIGURE 6.4.1.3

#### 6.4.2 Estimated Value of Benefits

The emphasis in this section has been placed on estimating the benefits that will result from the one-time development costs and the increased production estimates detailed in Section 6.4.1.

The benefits of FACTS are summarized in the Executive Summary of this report, described in Section 5.0, and detailed in Section 7.0. In this cost/benefit analysis section of FACTS these identified benefits are examined with the emphasis on the dollar savings or cost avoidance that accrues, including those benefits of a less tangible nature.

However, before examining the projected dollar savings of the FACTS strategic plan, it is appropriate to review briefly the historical cost avoidance estimates associated with the computer based Corporations Tax system.

##### 6.4.2.1 Historical Cost Avoidance Benefits

A cost avoidance of over \$5.5 million is indicated in Figure 6.4.2.1, resulting from the difference between projected salary expenses and actual EDP Investment during the ten years from 1966 to 1976. The savings have been calculated on the average number of taxpayer accounts per staff member that could be handled manually in 1965. They are understated to the degree that they do not take into account higher workloads brought about by more frequent instalment payments, increased complexity, etc., nor do they include the additional costs of administering and accomodating such a large increase in staff. However the savings serve to indicate the benefits of the cost avoidance approach by investment in EDP.

Cost Avoidance due to investment in EDP - (1965—1976).

Fiscal Year	Taxpayer Accounts	Employees Actual	Employees Projected	Complement Avoidance*	Average Salary \$(000)	Salary Savings \$(000)	EDP Total \$(000) **	Net Savings \$(000)
65-66	65,000	200	N/A	N/A		—	—	—
66-67	78,000	220	240	20	4.0	80.0	70.0	10.0
67-68	87,500	230	270	40	4.3	172.0	100.0	72.0
68-69	93,300	239	287	48	4.8	231.0	138.6	92.4
69-70	100,400	240	308	68	5.0	340.0	165.9	174.1
70-71	105,000	263	323	60	6.0	360.0	192.5	167.5
71-72	112,300	263	345	82	7.2	590.0	150.8	439.2
72-73	118,900	275	366	91	8.0	728.0	113.0	615.0
73-74	129,500	286	398	112	9.0	1,008.0	184.3	823.7
74-75	139,800	289	430	141	11.4	1,607.0	275.0	1,332.0
75-76	150,000	285	461	176	12.95	2,279.0	450.0	1,829.0
						7,395.0	1,840.1	5,554.9 ***

\* Based on an average of 325 taxpayer accounts per staff member.  
 \*\* Total EDP Costs in this table include Production, Maintenance and Development investment.  
 \*\*\* 10-year net savings.

FIGURE 6.4.2.1

#### 6.4.2.2 Detailed Benefits by Cost Centre

This section details the projected cost avoidance benefits resulting from FACTS. For purposes of comparison, Figure 6.4.2.2.1 shows Corporations Tax Branch estimated expenditures by cost centre for 1979/80 and the number of manyears spent. Costs shown are those established by the MBR programme and include the associated salaries/staff benefits (in 1979 dollars) of the number of staff assigned to each cost centre.

Figures 6.4.2.2.2 through 6.4.2.2.7 show the projected benefits resulting from each FACTS development package for each cost centre. The corresponding savings in manyears are also shown.

#### Tangible Benefits

These tangible benefits highlight the nature of the savings in constraining manpower to perform each function without proportional increases in staff, and emphasize salary cost avoidance. The main factors influencing these tangible benefits are: increased productivity resulting from shorter unit of work cycles, less emphasis on centralized data entry, and a reduced dependence on the Word Processing Centre for standard correspondence.

No attempt has been made to include savings of a tangible nature that are associated with manpower constraint such as the avoidance of additional equipment and space requirements.

It should be noted also that the detailed tangible benefits in the form of savings are included only once, i.e. in the year following the implementation of the FACTS development package; the savings are not accumulated throughout the full course of the strategic plan, thereby conservatively representing and limiting the full term "business case" benefits.

1979/80 COST CENTRE SALARY BUDGETS

Cost Centre	SALARY	MAN/YEARS
ASSESSMENTS	352.5	24.3
BULLETINS	0	0
CANCELLATIONS	100.9	7.3
COLLECTIONS	230.6	14.1
CORRESPONDENCE	154.0	9.2
DATA ENTRY	168.3	12.9
DEFAULT	158.6	12.0
DISCRETIONARY AUDIT – DESK	686.8	29.0
DISCRETIONARY AUDIT – FIELD	610.5	22.0
DRESSING	78.8	7.3
EDP LIAISON	101.1	7.0
FILING/MICROFILM	584.9	50.2
FDA	67.1	4.0
INPUT/OUTPUT	91.9	6.0
INTERPRETATIONS	77.6	3.0
INVESTIGATIONS	200.0	12.3
LEGISLATIVE POLICY	70.9	4.0
LIENS	212.4	15.2
MANAGEMENT	222.7	9.0
MISCELLANEOUS	0	0
NON-DISCRETIONARY AUDIT	482.5	23.0
PLANNING	201.0	10.0
REFUNDS	41.6	3.0
SCREENING	256.7	11.0
WORD PROCESSING	395.3	32.0
TOTAL	5546.7	327.8

FIGURE 6.4.2.2.1



Development Package Cost Centre	80A	80B	80C	80D	80E	80F	80G	80H	80I	Total
ASSESSMENTS	130.3 9.0									130.3 9.0
CORRESPONDENCE					-0-					-0-
DATA ENTRY	.9 .1		9.3 .7					4.7 .4		14.9 1.2
DISCRETIONARY AUDIT -- DESK		23.5 1.0								23.5 1.0
DRESSING						5.0 .4				5.0 .4
FILING/MICROFILM	9.9 .9	23.3 2.0		105.1 9.0	-0-					138.3 11.9
INPUT/OUTPUT	2.2 .1		4.1 .3					1.9 .1		8.2 .5
INVESTIGATIONS							-0-		-0-	-0-
LIENS		212.4 15.2								212.4 15.2
MANAGEMENT								-0-		-0-
SCREENING						72.4 3.1				72.4 3.1
WORD PROCESSING	89.6 7.3	22.3 1.8								111.9 9.1
TOTAL	232.9 17.4	281.5 20.0	13.4 1.0	105.1 9.0	-0-	77.4 3.5	-0-	-0-	6.6 .5	716.9 51.4

Salary
Man./years

0- Intangible benefits

FIGURE 6.4.2.2.2

BENEFITS '81

Development Package Cost Centre		81A	81B	81C	81D	81E	81F	Total
ASSESSMENTS		0-			26.9 1.8			26.9 1.8
								0-
CANCELLATIONS			0-					0-
COLLECTIONS			0-					0-
DATA ENTRY			8.3 .6	1.3 .1	4.1 .3	0-		13.7 1.0
								0-
DISCRETIONARY AUDIT – DESK			0-					0-
DRESSING			0-					0-
FILING / MICROFILM			11.2 1.0		12.1 1.0			23.3 2.0
FDA				67.1 4.0				67.1 4.0
INPUT/OUTPUT			0-	1.5 .1	7.3 .5			8.8 .6
INVESTIGATIONS			0-					0-
NON-DISCRETIONARY AUDIT					278.1 13.6			278.1 13.6
REFUNDS		39.7 2.8						39.7 2.8
SCREENING					146.6 6.3	14.8 .6		161.4 6.9
WORD PROCESSING					17.7 1.4		10.0 0-	27.7 1.4
TOTAL		39.7 2.8	19.5 1.6	69.9 4.2	492.8 24.9	14.8 .6	10.0 0-	646.7 34.1

Salaries
Man/years

0- Intangible benefits

FIGURE 6.4.2.2.3



Development Package Cost Centre		82A	82B	82C	82D	82E	82F	Total	
ASSESSMENTS				78.0			-0-	78.0	
				5.5				5.5	
CANCELLATIONS		-0-						-0-	
COLLECTIONS		64.8						64.8	
		3.9						3.9	
CORRESPONDENCE					-0-			-0-	
DATA ENTRY			-0-	1.4				1.4	
				.1				.1	
DEFAULT		44.6		-0-				44.6	
		3.4						3.4	
FILING/MICROFILM						4.6		4.6	
						.4		.4	
INVESTIGATIONS					-0-			-0-	
TOTAL		109.4	-0-	79.4	-0-	4.6	-0-	193.4	
		7.3		5.6		.4		13.3	

Salary
Man /years

-0- Intangible benefits

FIGURE 6.4.2.2.4

Development Package Cost Centre		83A	83B	83C	83D						Total
ASSESSMENTS			11.6								11.6
			.8								.8
CORRESPONDENCE			51.0								51.0
			3.0								3.0
DATA ENTRY			1.3								1.3
			.1								.1
DISCRETIONARY AUDIT –DESK				64.0							64.0
				2.7							2.7
DISCRETIONARY AUDIT –FIELD				36.9							36.9
				1.3							1.3
INVESTIGATIONS					–0–						–0–
NON-DISCRETIONARY AUDIT				35.3							35.3
				1.7							1.7
REFUNDS			–0–								–0–
WORD PROCESSING			58.1	4.1							4.1
			4.7	.3							.3
TOTAL		–0–	122.0	140.3	–0–						262.3
			8.6	6.0							14.6

Salary
Man/years

–0– Intangible benefits

FIGURE 6.4.2.2.5

BENEFITS '84

Development Package Cost Centre		84A	84B	84C	84D							TOTAL
CANCELLATIONS				5.9								5.9
				.6								.6
COLLECTIONS			-0-									-0-
DATA ENTRY					-0-							-0-
DEFAULT			28.1									28.1
			2.1									2.1
INVESTIGATIONS				-0-								-0-
SCREENING					65.1							65.1
					2.8							2.8
WORD PROCESSING		-0-										-0-
TOTAL		-0-	28.1	5.9	65.1							99.1
			2.1	.6	2.8							5.5
		0- Intangible benefits										
		Salary										
		Man/Years										

FIGURE 6.4.2.2.6

BENEFITS '85

Development Package Cost Centre		85A																	TOTAL
DISCRETIONARY AUDIT – DESK		0-																	0-
DISCRETIONARY AUDIT – FIELD		0-																	0-
NON-DISCRETIONARY AUDIT		0-																	0-
INPUT / OUTPUT		38.0																	38.0
		2.6																	2.6
DATA ENTRY		26.0																	26.0
		1.6																	1.6
FILING		23.6																	23.6
		1.6																	1.6
TOTAL		87.6																	87.6
		5.8																	5.8
Salary																			
Man/years																			

0- Intangible benefits

FIGURE 6.4.2.2.7

#### 6.4.2.3 Cost Avoidance Projection Summary

This section summarizes the benefits detailed in the previous section in a manner similar to the historical cost avoidance table shown in Figure 6.4.2.1.

It should be noted however that Figure 6.4.2.3 uses both 1975/6 and 1979/80 as new base years for calculating net benefits and does not include cumulative savings carried forward from the previous decade. It should also be noted that the number of employees projected for the FACTS cost avoidance is based on a workload growth per annum rather than a fixed number of accounts per employee and is therefore more realistic in terms of automatic data processing.

The reduced complement avoidance benefit between 1976/7 and 1978/9 is primarily due to the deliberate policy during the conversion to data base of parallelling the previous system and not introducing development features; and the smaller apparent tangible benefit is due to using 1975/6 as the new base year while retaining the total EDP Investment as the criterion for comparison rather than the EDP Development Investment portion alone. However the total EDP cost was retained to reflect the increasing cost of EDP production investment, and also for consistency.

#### FACTS Benefit Projection

This is also true for the FACTS cost avoidance projection. The apparent deficit of the early years is again due to comparing complement avoidance savings from a new base year of 1979/80 against a total EDP Investment rather than discounting the base production cost. A complement avoidance benefit would therefore be more favourable if compared against only Development funds and the amount of additional production expense.

Furthermore it should be noted that the FACTS cost avoidance projection is based solely on anticipated increases in workload. A constant 1979 average salary rate is used for the calculation; no inflation based increases in salaries have been included with the result that the projected cost avoidance benefits are very conservatively estimated.

Notwithstanding the above, the net tangible benefits at the end of the projection exceed \$3.9 million.

Projected Cost Avoidance due to investment in EDP  
(Salaries/Benefits only).

Fiscal Year	Taxpayer Accounts	Employees Actual	Employees Projected*	Complement Avoidance	Average Salary \$(000)	Salary Savings \$(000)	EDP Total \$(000)	Net Benefits \$(000)
75-76	150,000	285	N/A	N/A	N/A	—	—	—
76-77	162,000	285	308	23	14.2	326.6	608.4	(281.8)
77-78	185,000	302	352	50	15.5	775.0	1149.2	(374.2)
78-79	207,000	289	394	105	17.0	1785.0	1093.2	691.8
79-80	231,800	298	441	143	20.2	2888.6	941.5	1947.1
						5775.2	3792.3	1982.9

DATA BASE  
CONVERSION

79-80	231,800	298	—	—	20.2**
80-81	259,700	309	330	21	20.2
81-82	290,800	311	367	56	20.2
82-83	325,700	303	407	104	20.2
83-84	364,800	339	451	112	20.2
84-85	408,600	366	501	135	20.2
85-86	457,600	389	556	167	20.2
					***

FACTS PROJECTED  
COST AVOIDANCE

\* Based on a growth of 12% per annum.  
\*\* Average Salary, including 18% Benefits, adjusted by Data Entry and Land Tax changes.  
\*\*\* Not adjusted for inflation

FIGURE 6.4.2.3





#### 6.4.2.4 Additional Benefits

The previous section dealt with those benefits of a tangible nature which, notwithstanding the inadequacy of the format and the deliberate exclusion of the factors of both inflation and overhead in the calculation of savings, nevertheless were capable of being expressed in dollar terms.

The intention of this section is to review briefly those benefits within FACTS which are of a less tangible nature and to attempt, where possible, an estimation of value in dollar terms, whether it is a once only benefit or a benefit enjoyed continuously in successive years.

##### Intangible Benefits

The main areas of less tangible benefits centre around:-

(i) the potential increase in revenue in the areas of:-

- . Revenue Generation: through a re-enforced policy of encouraging accurate self-assessment;
- . Revenue Control: through more productive discretionary activities;
- . reduced Accounts Receivable: through the re-allocation of additional resources.

(ii) the potential reduction in Direct Operating Expenses (DOE) associated with:-

- . cost avoidance of chairs, desks, typewriters, filing equipment, etc.
- . lien clearance requests.

Other benefits are associated with:-

- . the promotion of deregulation;
- . increased level of service;
- . faster updating of filed information which has been estimated for the purposes of a presentation to Management Board of Cabinet by the Deputy Minister to improve cash flow by \$1.8M per annum, based on eliminating 5% of the selective manual activity on the \$36 million current accounts receivable;
- . reduced manual calculations in complex re-assessments with a resultant 2-week faster cash flow valued at one-off \$15 million for purposes of presentation to Management Board, March 1980.
- . more accurate updating through the promotion of data entry at source, while at the same time eliminating manual cash entries of 500,000 payments per annum by means of OCR, thereby promoting increased allocation accuracy;
- . the 'fastpath' processing of minimum value tax returns, thereby allowing concentration on "high-yield" accounts with the associated faster assessments and collections;
- . increased control of, and accessibility to, management information;
- . increased job enrichment and staff morale as a degree of protection against the disruption of the Oshawa relocation i.e. staff losses, retraining and hiring lags.

## 6.5 Implications for Corporations Tax Branch

The following section reviews the implications of the FACTS strategic plan for the Corporations Tax Branch in terms of the increase of staff that would be required without the recommendation packages outlined in this report.

The implications of constraining increases in staff to accomodate projected workload growth include maintaining or improving administrative control, management discretion in the percentage of resource allocation to discretionary activities, and a more flexible total financial plan for the Branch.

### 6.5.1 Projected Manyear Comparisons

Figure 6.5.1.1 shows the comparison of projected manpower requirements with and without the FACTS development projects. It distinguishes between activities of a non-discretionary and discretionary nature where in this instance discretionary is linked only with the Field and Extended Audit functions. It should be noted that increases portrayed in the non-discretionary activities are related to the growth in tax roll to maintain the same percentage level of discretionary activity as currently experienced and are not mandatory therefore.

In the non-discretionary areas, it should be noted that the manyear requirement does not grow significantly (and indeed includes a projected decrease in one year) until after the enforced development freeze imposed by the relocation to Oshawa.

Projected Resource Requirements ( Man/years)

		WITHOUT FACTS			WITH FACTS		
		Non-Discretionary	Discretionary	Total	Non-Discretionary	Discretionary	Total
79/80		276	51	327	276	51	327
80/81		306	57	363	283	57	340
81/82		339	64	403	276	64	340
82/83		375	72	447	269	72	341
83/84		416	80	496	290	80	370
84/85		461	90	551	295	90	385
85/86		510	101	611	320	101	421

\* Discretionary man/years requirement refers in this table to FIELD and EXTENDED AUDIT activities only.

FIGURE 6.5.1.1

CORPORATIONS TAX BRANCH – PROJECTED RESOURCE REQUIREMENTS ( Man/years)

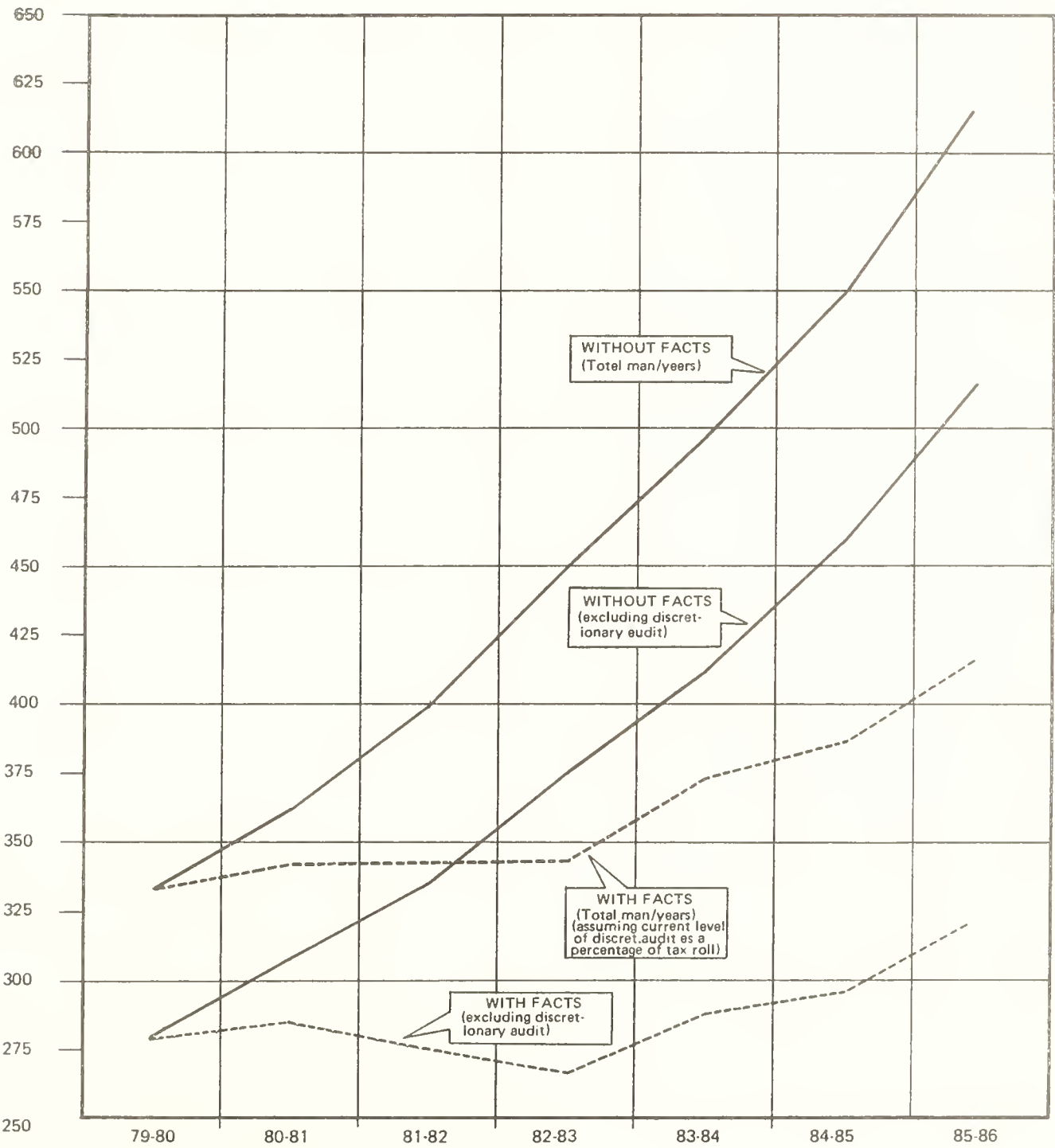


FIGURE 6.5.1.2

The translation into graphical form in Figure 6.5.1.2 of the numerical data contained in Figure 6.5.1.1 underlines the control achieved over non-discretionary resource requirement while offering management some latitude of decision over the discretionary activity of the Branch, and contrasts the uncontrolled upward spiral of manpower necessary without a comprehensive development plan for the Corporations Tax Branch.











## 7.0 DETAILED REVIEW OF ALTERNATIVES

The purpose of this section is to detail procedural alternatives considered for each process within the Corporations Tax Branch.

For each process a brief description of the current procedure is provided and alternative methods are considered at two levels. At the tactical level broader policy-oriented approaches are examined; while at the implementation level, operational considerations and consequences of tactical recommendations are reviewed.

An attempt has been made to present a comprehensive view of available options. In doing so, some alternatives considered have less practical application at this time than those finally recommended. Some of these alternatives might be more applicable in the future.



## 7.1 Revenue Generation Alternatives

The following section reviews those major functions of the Corporations Tax Branch which are associated with Revenue Generation, as represented in the tax model, and examines alternative approaches to the Revenue Generation activities.

These functions include:

Remittance Processing, Returns Processing, the four activities of the Accounts Processing function, and three activities associated with Tax Roll Processing.



### 7.1.1 Remittance Process

All payments intended for Corporations Tax Branch are processed through the Revenue Processing Centre. The function of the Revenue Processing Centre is to deposit all payments in the bank as soon as possible and to ensure the payments are properly allocated to each account and taxation year.

This section is divided into three parts which examine the current operational procedures, alternative methods of remittance data capture, and, finally, acceptable approaches to the problem of allocation of non-specified payments.

#### 7.1.1.1 Current Procedure

Payments are received in the Revenue Processing Centre in three forms:-

- . blue envelopes containing cheques and remittance forms;
- . brown envelopes containing CT23's and cheques (post budget 1979 returns will have a remittance attached); and
- . white envelopes which contain correspondence and cheques.

The blue envelopes are slit and the contents extracted by Bell and Howell Carrousel 1000 machines. The other mail is processed manually.

Cheques accompanied by remittance advices with Optical Character Recognition font can be processed through an OCR reader. Cheques which have no accompanying remittance advice are processed through the manual Data Entry section of the Branch, a procedure which applies to both the photocopied top portion of the Corporations Tax returns and the manually prepared remittances.





Receipt of a cheque without an OCR preprinted remittance advice delays the processing since a search on a terminal is required to allocate the money to the correct account and taxation year. The resulting manually prepared remittance advice cannot be processed through the Optical Character Reader. The data capture process for non-OCR documents is labour intensive with multiple paperwork flows.

#### 7.1.1.2 Remittance Data Capture Alternatives

##### Alternative I

This option advocates the current procedure as outlined above with the minor enhancement of:

- . a re-enforcement of the allocation procedures used by the Revenue Processing Centre;
- . instruction for the Revenue Processing Centre staff in the instalment requirements of the Corporations Tax Act as they relate to the fiscal year end of corporations.

##### Advantages

- (i) bank deposits would be made in timely fashion;
- (ii) some remittance advices at least would continue to be processed using OCR equipment;
- (iii) no new equipment would be required;
- (iv) minimum staff retraining would be necessary.

##### Disadvantages

- (i) manual effort would still be required to prepare remittance advices for posting purposes;
- (ii) two separate processing streams would persist;
- (iii) misallocation of cash would persist at the current rate, or worse with increasing workload.



## Alternative II

This alternative proposes the use of an OCR printer which would enable all remittances to be captured through the Remittance Processing System's OCR equipment and eliminate the dependence on centralized data entry.

### Procedure

- (i) cheques with OCR readable remittances would be captured on OCR equipment as in the current procedure;
- (ii) for cheques received without a remittance advice:
  - . the Revenue Processing Centre clerk would access the corporation name on a CRT terminal and obtain the account number;
  - . the account data would be verified to determine allocation of payment as to taxation year;
  - . an OCR readable document would be produced through a terminal printer;
  - . the remittance data would be captured along with the main batch of computer printed remittance advices received from the taxpayers.

### Advantages

- (i) the centralized data entry keying would be bypassed for remittance processing, creating a single stream data capture procedure through the OCR equipment;
- (ii) the manual preparation of remittance advices would be eliminated;
- (iii) photo copying of top portion of returns would be discontinued;
- (iv) no additional staff would be required.

### Disadvantages

- (i) additional costs would be incurred (\$200 per month rental) for a printer terminal;
- (ii) some retraining of staff would be required.



### Alternative III

This alternative examines the use of on-line CRT terminals to capture remittance data.

#### Advantages

- (i) more immediate posting of cash would be possible;
- (ii) reliance on the CTR programme as the vehicle for cash allocation and data capture would be reduced.

#### Disadvantages

- (i) divergence from the Optical Character Recognition data entry policy of the Revenue Processing Centre would ensue;
- (ii) keying effort would be very labour intensive;
- (iii) additional staff would be required immediately;
- (iv) additional terminals would be required at extra cost.

#### Recommendations

It is recommended for the data capture of remittance advice information that:

- (i) an OCR font printer terminal be installed in the Revenue Processing Centre for the production of OCR readable remittance advices for those payments not accompanied by a computer produced remittance advice.



### 7.1.1.3 Allocation of Non-Specified Payment Alternatives

#### Alternative I

This alternative would involve treating every payment received without a remittance advice as a payment of arrears. The year box on the remittance form would be automatically coded with tax year "11" (which has the effect of allocating the payment first to assessed arrears and then to the first unassessed year as an instalment).

#### Procedure

- . Cheques received with OCR printed remittance advices would continue to be batched and captured through the Optical Character Recognition reader and would be applied to the year specified;
- . for non-specified payments, the CRT terminal would be accessed first to determine the proper account number and then the taxation year on the document would be automatically coded as "11" which would result in the payment being applied as an arrears payment.





### Advantages

- (i) cash would be posted to the master file more rapidly;
- (ii) manual checking for proper taxation year allocation would be eliminated.

### Disadvantages

- (i) a higher incidence of payments being applied to the wrong year would result, causing improper amounts to be billed and refunded;
- (ii) taxpayer inquiries would increase;
- (iii) additional journal entries would have to be prepared and recorded to correct the "errors";
- (iv) additional statements of account would have to be prepared to satisfy taxpayer inquiries.

### Alternative II

This alternative examines a procedure in which the correct tax year allocation is determined for all remittances.

### Procedure

- . Payments received with accompanying documentation of allocation intent would be processed by accessing the CRT terminal to verify the account number and assign the proper tax year allocation: as a result of this action an OCR readable document would be produced for data capture purposes;
- . for payments received without identification the CRT terminal would be accessed to determine proper allocation of the payment;
- . if the payment and the arrears on the account are equal, the payment would be assigned to tax year "11";



- . if there is no debit on the account the Revenue Processing Centre clerk would check if the payment is equal to previous payments credited as instalments: if so, the payment would then be allocated to the same year as the previous payments;
- . if the clerk cannot determine the correct year, the payment would be set aside and proper allocation of the payment would be determined by contacting the taxpayer.

#### Advantages

- (i) a high percentage of funds would be correctly allocated to the proper account and taxation year;
- (ii) notices of assessment, refunds, and amounts shown on remittance advices sent to taxpayers, would be more accurate;
- (iii) there would be a resultant decrease in taxpayer inquiries.

#### Disadvantages

- (i) a delay in depositing cheques into the bank would ensue;
- (ii) an increase in the manual workload of the Revenue Processing Centre staff would result;
- (iii) there would be a delay in posting payment information to the Corporations Tax data base;
- (iv) additional staff would be required.

#### Alternative III

Under this alternative, all payments would be allocated to the year indicated by the taxpayer on the remittance advice, correspondence, and cheque stubs: or, allocation would be made from reference to CRT terminals in those cases where allocation is obvious; otherwise, where proper allocation cannot be determined, the payment would be coded with tax year "11". As part of the alternative the on-line retrieval system would be enhanced to aid in determining proper allocation and a training programme would be established for Revenue Processing Centre staff.



## Procedure

- . as now, payments received with an OCR-readable remittance advice (showing the proper allocation as to the corporation account and year) would be captured without further search;
- . payments without OCR-readable remittance advices, but with accompanying documentation of allocation intent, would be processed by accessing the CRT terminal to verify the account number and assign the proper tax year allocation. As a result of this action, an OCR readable document would be produced for data capture purposes from a printer terminal;
- . for payments where there is no indication of the proper tax year allocation and allocation is not obvious from reference to the CRT terminal's Revenue Processing Centre format, the CRT terminal would be accessed only to verify the account number and then the tax year allocation would be coded as "11". As a by-product of this process an OCR-readable document would be produced for data capture purposes on the Remittance Processing equipment.

## Advantages

- (i) cash would be deposited in the bank quickly;
- (ii) minimum staff training and education would be required.

## Disadvantages

- (i) some payments would be misallocated, resulting in some taxpayer inquiries;
- (ii) some percentage of improper amounts would be billed and refunded.



## Recommendation

For purposes of allocation of non-specified payments on behalf of Corporations Tax Branch, it is recommended that:-

- (i) a procedure be implemented whereby the Revenue Processing Centre clerk accesses a CRT terminal to verify the identification of the taxpaying corporation;
- (ii) where allocation is obvious to the clerk from referring to the Revenue Processing Centre's specific screen format, and after being instructed in allocation procedures, the clerk will proceed to allocate the payment to the correct tax year;
- (iii) where allocation cannot be determined readily by the clerk, an automatic allocation will be indicated to the computer by the "11" code in the tax year box.





### 7.1.2 Returns Processing

In this section the Returns Processing function is examined in light of the increases in workload (described in section 2.0) and the problems arising therefrom.

The section presents an overview of the current process, then examines tactical-level alternatives to the manually-oriented current operation. The resulting recommendations are reviewed in light of the implementation-level consequences for both the preparation for return acceptance and the scoring for audit selection.

#### 7.1.2.1 Current Procedure

Under the present operation every return is scrutinized manually:-

- (i) to ensure that the return is acceptable to the computer in format and completeness of information;
- (ii) to find changes or omissions in non taxable items (i.e. name, account number, address, fiscal year end, period filed does not exceed 13 months, and that the corporation is on the active tax roll);
- (iii) for financial statements;
- (iv) to confirm that proper figures are entered on page one of the CT23;
- (v) to correct the return where obvious errors are found;
- (vi) to ensure that the proper code is entered on the return for future audit selection;
- (vii) to score the return for future audit selection.



The preceding tasks require that the Tax Return Centre is divided into two distinct groups:-

- (i) a clerical group of 5 clerks and a supervisor, who look for changes in information take the necessary dressing action for the computer to accept the return; and
- (ii) a group of 7 tax auditors who screen the figures on the return to ensure correctness of initial billing and to score the return for audit selection.

Supplementary to these procedures all returns are forwarded to the Input/Output Section for assignment of sequence numbers and to the centralized data entry operation for data capture.

#### 7.1.2.2 Tactical Level Alternatives

The following paragraphs outline several alternatives to the current process that concentrate on reducing future workload or accelerating the returns acceptance function.

##### Alternative I

Under this alternative, the Corporations Tax Branch would administer only the Capital Tax portion of corporations tax. The income tax portion would be administered by Revenue Canada either in concert with the Corporations Tax Branch or independently.

Where the income tax portion would be administered jointly, a corporation would file only one Federal income tax return. Information pertaining to the assessment of income tax would be passed to the Corporations Tax Branch where notices of assessment would be issued for both income tax and capital tax. Payment of taxes would be made directly to the Province of Ontario.

Where Revenue Canada administered corporation income tax on behalf of Ontario it would bill and collect the taxes, as is the current practice with personal income taxes. The Corporations Tax Branch would require a separate capital tax return and collect capital tax directly.



### Advantages

- (i) significant reduction in audit workload
- (ii) internal Branch procedures would be simplified
- (iii) deregulation and simplification since only one return for income tax would be required

### Disadvantages

- (i) major policy adjustments would be required
- (ii) reduced ability to control fiscal policy
- (iii) daily cash flows would be drastically reduced

### Alternative II

This alternative examines reducing the frequency of filing for small corporations which declare minimum capital tax and no income tax payable.

### Advantages

- (i) reduction in paper flow of 80,000 Returns per annum;
- (ii) reduction in manpower requirements;
- (iii) deregulation for small taxpayers by reducing filing requirements;
- (iv) reduced data entry workload;
- (v) reduced number of companies in default;

### Disadvantages

- (i) extensive legislative changes required;
- (ii) cash flow reduced in first year by \$4.0 million;
- (iii) current information on total corporate profile diminished;
- (iv) loss of revenue when corporations cease operation in the tax period in which they are not required to file;



### Alternative III

Under this approach returns received in the Returns Processing Centre would be separated into two categories: those declaring total tax payable of \$100.00 (or less) with gross income under \$25,000; and those exceeding these limits. Returns exceeding \$100 total tax payable and gross income exceeding \$25,000 would be processed in the current practice, while returns in the lower dollar category would only be dressed for computer acceptability.

#### Proposed Procedure

Under the above approach, the associated procedures would be as follows:

- (i) Dresser accesses account number on CRT terminal to bring out the Returns Processing format for all returns;
- (ii) visually verifies non-tax information on the return to information on the C.R.T. screen:
  - . fiscal year end;
  - . incorporation date;
  - . name and account number;
  - . address;
  - . status of the company;
  - . dates on the financial statements and year-end recorded on the return agree;
  - . return is signed;
  - . letters and cheques are not affixed to or in the return.
- (iii) returns declaring lower limit of tax payable and gross income are batched and sent directly to Input/Output control for entry into the computer;
- (iv) returns declaring the higher limit of tax payable and gross income are sent to the screening section to confirm proper figures are entered on page 1 of the return and to score the return for future audit selection.





### Advantages

- (i) reduction by 25% in audit time spend on screening returns;
- (ii) returns would enter the system and be billed more rapidly;
- (iii) would reduce the dependency on audit staff;
- (iv) would reduce volume of returns screened by 80,000 (47.8%).

### Disadvantages

- (i) some risk would be incurred in maintaining guaranteed accuracy of the billing;
- (ii) all returns would not be manually scored for audit selection;
- (iii) returns would have to be sorted and enter the system through two processing paths.

### Alternative IV

This alternative proposes that scoring for audit selection purposes be done after the acceptance of the return into the system for billing.

The duties of the dressing clerks would expand to include: verification of the figures contained on page one of the Corporations Tax Return to financial statements; and entering the return into the system for billing.

### Proposed Procedure

Under this approach the procedure would be:

the dresser accesses account number on a CRT terminal to bring out the Return Processing format and visually verifies information on the top portion of the return; in addition, the following checks would be made by the dressers on page one of the return;

- . that financial statements are included;
- . that gross revenue on financial statement and page one agree;
- . that non-capital loss is verified to financial statements;
- . that taxable income agrees with taxable income reconciliation;



- . that Ontario allocation is verified to the schedule in the return;
- . the small business tax credit;
- . that foreign tax credit is verified to the financial statements and schedule in the return.

For each of the above, the correct boxes on page one of the return would be completed according to the action taken. Returns would be batched and entered into the system at this point. After return acceptance into the system, returns would be forwarded to Tax Auditors for review and scoring for future audit selection.

#### Advantages

- (i) dependence on audit staff prior to billing reduced;
- (ii) would allow audit staff to concentrate on discretionary audit activity;
- (iii) would reduce the time between receipt of the return and production of Notice of Assessment;
- (iv) simplifies paper flow prior to billing;
- (v) discrete functions for both preparation of the return for computer acceptance and scoring for audit selection;
- (vi) would allow automated scoring for audit selection as computer information can be used to identify scoring conditions and to direct auditing efforts.

#### Disadvantages

- (i) minimum of two additional dressers would be required;
- (ii) extensive retraining of dressing staff;
- (iii) would reduce the number of initial billing adjustments;

#### Alternative V

This approach would eliminate the practice of making pre-billing tax adjustments of a legislative interpretive nature and would follow more closely the principles of the self assessing system in checking the accuracy of the taxpayer's return.



### Advantages

The advantages of this alternative centre around the reduced labour intensity that would be required for the returns processing function:

- (i) elimination of audit resource requirements for pre-billing tax adjustments;
- (ii) would allow auditors to be allocated to higher level audit activities where audit recoveries are greater;
- (iii) would eliminate manual checking for those returns without tax adjustments.

### Disadvantages

The disadvantages for this approach are concerned with revenue recovery:

- (i) there would be a loss of initial revenue recovery;
- (ii) there might be an increase in amended returns;
- (iii) the number of reassessments might increase;
- (iv) the accuracy of the initial billing might be relatively inferior.

### Recommendations

The following recommendations are made for the returns processing function at the tactical level:

- (i) that returns are processed according to tax liability and gross revenue: returns with a total tax liability of \$100 (or less) and gross revenue of less than \$25,000 should be subject to less rigorous manual checking, should be dressed only for computer acceptability, and forwarded directly for data entry: returns with greater tax liability or gross revenue greater than \$25,000 should undergo more extensive validation and checking prior to being forwarded to data entry;
- (ii) that the scoring of returns (box 5) for audit selection purposes be done after the return has been processed through return acceptance;



- (iii) that the dressing operation be expanded to encompass additional validation of the return, currently part of the screening by audit staff, to enable manual scoring to be done as a discrete post billing operation;
- (iv) that pre-billing tax adjustments of legislative interpretive nature be discontinued in accordance with the above recommendations, and that the principles of self assessment be emphasized for initial billing.

#### 7.1.2.3 Implementation Level Considerations

To accommodate the aforementioned recommendations there are a number of implementation level considerations pertaining to the functions of: assigning sequence numbers and batching of returns; effecting non-tax information changes to the data base file; dressing returns for computer acceptance; capturing return data for computer acceptance; and scoring returns for audit selection.

##### Assigning Sequence Numbers and Batching

The recommendation to segregate returns into two streams of processing makes it desirable to relocate in the cycle of operations the present procedure of assigning sequence numbers and to modify batching requirements.

Assignment of sequence numbers should be performed as an initial function when returns are received in the Tax Return Centre to establish controls that assure all returns are finally accepted into the computer system, and to eliminate the need to maintain returns in batches throughout the return acceptance process. The segregation procedure will be made easier and more flexible if manual batching requirements are lessened.





## Effecting Non-Tax Information Changes

It would be desirable to retain a common procedure for effecting non-tax changes (e.g. address, fiscal year end, etc) for both minimum tax and other returns. In order to do this, these changes should be dealt with prior to, or during, the segregation of returns into two processing streams.

In the present process the information retrieval system is accessed during the dressing procedure, for all non-computer produced returns and computer produced returns with indicated non-tax data changes, to verify the accuracy of the identifying information to the data base file. If necessary the changes are highlighted on the return or computer input documents are completed to signify the revisions to the Data Entry staff.

The following considers alternative methods of effecting non-tax changes in light of the tactical level recommendations already outlined.

### Alternative I

This alternative considers retaining the present method of processing non-tax changes. As outlined, this involves using the on-line information retrieval system to confirm the validity of indicated changes (as well as checking all non-computer produced returns for changes), indicating on the return or preparing input documents to signify the revision to the data entry process, and effecting the changes to the data base file through the batch update.



### Advantages

- (i) retraining would not be required for the method in the revised return processing procedures;
- (ii) the present method of indicating some changes by circling the information on the return is not time consuming for returns processing staff;

### Disadvantages

- (i) data entry personnel may have difficulty interpreting or may miss intended changes;
- (ii) some changes (such as address changes) may not be accepted into the computer system prior to the billing of the return;
- (iii) data entry of these changes takes away from the prime function of capturing return information;
- (iv) keying effort is maximized by not having access to master file information;
- (v) returns with such changes must be withheld from the filing room until non-tax changes are confirmed.

### Alternative II

This alternative proposes that the on-line system be used to not only confirm or recognize non-tax changes during the return processing procedure, but also that the on-line system be used by the Tax Return Centre staff to effect the required update of the data base file.

### Advantages

- (i) on-line updating for these changes is just an extension of the on-line activities already required to confirm or recognize non-tax changes;
- (ii) staff who are knowledgeable with the desired effect of the change would actually be making the change;
- (iii) all non-tax changes would be effected and verified immediately and would be finalized before the return is billed and the assessment notice is sent to the taxpayer;



- (iv) data capture of return information and subsequent forwarding of returns to other Branch areas would not be affected or delayed by the need to effect non-tax changes;
- (v) keying effort would be reduced due to the accessibility of master file information.

#### Disadvantages

- (i) some additional equipment and processing costs would ensue;
- (ii) there might be a slight increase in time expended by Tax Return Centre staff to effect rather than indicate the non-tax changes;
- (iii) some retraining of Tax Return Centre staff would be required in changing to the on-line operation.

#### Recommendation

Of the two alternatives considered for effecting non-tax information changes, it is recommended that the on-line system be extended to include update capabilities.

#### Dressing Returns For Computer Acceptance

At the tactical level it is recommended that returns be segregated into two streams of processing to allow different level of dressing and validation procedures, that the audit selection scoring function be separated from the return acceptance procedures, and that a policy of closer adherence to self-assessing principles be adopted for initial billing of returns. This section outlines the consequences of these recommendations on the return dressing and validation procedure.



For returns with tax liability of \$100 or less and gross revenue of less than \$25,000 (minimum tax returns) dressing and validation procedures would only ensure that the return was complete for data entry purposes and that non-tax information changes were recognized and applied to the data base file.

For returns outside the minimum tax category these preliminary checks for completeness and non-tax changes would be performed, but they would also be forwarded to a more extensive validation procedure before being forwarded to the data entry function.

The more extensive validation procedure would include some of the present dressing and screening procedures but would be less comprehensive than the present procedures in their entirety since tactical recommendations eliminate the auditor presence in the return acceptance function and advocate adherence to self-assessing principles for initial billing.

With this in mind, the more extensive validation procedure would primarily involve: checking returns for completeness for computer acceptance; checking that required statements and schedules accompany the return; and checking that figures reported on the front page of the return are consistent with associated figures reported in the additional pages of the return and the financial statements and schedules. Not included in the procedures would be checking of an interpretive nature (presently performed by the audit staff), nor extensive manual checking of tax calculations and proration requirements. The tax calculations and proration accuracies would be verified by the computer system upon return acceptance.





To enact this procedure, the skills of present dressing staff would have to be upgraded to accommodate some of the functions which are presently performed in the screening function.

### Capturing Return Data For Computer Acceptance

Three alternatives are considered for capturing return data. Non-tax changes are not included in this discussion.

#### Alternative I

This alternative considers the use of optical character recognition techniques for capturing return information.

#### Advantages

- (i) the prime advantages of OCR data capture would be a significant reduction in keying effort;
- (ii) additional information could be captured from the return without consideration of manual data capture constraint;
- (iii) an add-on facility to the data capture function could provide the microfilming of returns;
- (iv) data capture would be faster.

#### Disadvantages

- (i) OCR techniques for capturing high data volume documents are questionable at the present time;
- (ii) this method of data capture would require document to be separated from accompanying statements and scheduling;
- (iii) the quality of the print would have to be high on the majority of return documents to avoid extensive correction procedures during data capture.



## Alternative II

This alternative considers capturing return data in the Tax Return Centre by using the on-line system during the dressing and validation procedures.

### Advantages

- (i) keying effort would be reduced since the master file information would be available during the data capture process;
- (ii) errors could be corrected immediately during the data capture process;
- (iii) return information could update the data base file immediately (it could also be stored for later update); and the information would be available to all areas of the Branch;
- (iv) paper flows and associated manual handling would be substantially reduced;
- (v) staff which are knowledgeable of the data would be entering the return information;
- (vi) returns could be forwarded to other Branch functions without delay for acceptance confirmation.

### Disadvantages

- (i) the high volume of keying effort would detract from the prime purpose of validating returns;
- (ii) significant procedural and skill changes would be required in the Tax Return Centre;
- (iii) there would be a significant increase in on-line equipment and processing costs.



### Alternative III

This alternative proposes retaining the present method of centralized data capture for returns information.

#### Advantages

- (i) high volume data entry is better performed as a single concentrated keying function;
- (ii) there would be no retraining requirements to accomplish the data capture;
- (iii) Tax Return Centre staff could concentrate on the prime function of scrutinizing and validating return information.

#### Disadvantages

- (i) people who are less familiar with the data would be performing the capture function;
- (ii) there is a slight delay in reflecting return information on the data base file;
- (iii) returns must be withheld from other Branch areas to await acceptance confirmation.

#### Recommendation

Due to the high volume of return information to be captured and the likelihood of this volume increasing in the future it is recommended that the centralized data entry method be retained.

As optical character recognition techniques become more sophisticated, it is recommended that this method (attractive because of its potential to significantly decrease labour intensive keying effort) be considered as a serious alternative.



## Audit Selection Scoring

At the tactical level it is recommended that segregated processing methods of return acceptance be employed and that audit selection scoring be separated from the initial return acceptance procedures. This section considers alternative methods of assigning potential audit values to returns.

It should also be noted that return data already accepted in the computer system could be of use in directing auditor efforts where alternatives involve manual scrutiny.

### Alternative I

This alternative considers continuing the present practice of reviewing all returns manually and assigning an audit selection score based on the content of the return and associated schedules and financial statements.

#### Advantages

- (i) all returns undergo a cursory audit coverage during the scoring process;
- (ii) some corporations with reported low tax liabilities are found to have high potential for audit;
- (iii) comprehensive coverage acts as a verification of how well the self-assessing system is working.

#### Disadvantages

- (i) many returns are examined without potential for revenue recovery being uncovered;
- (ii) the process is labour intensive;
- (iii) many of the present checks could be performed by the computer system;





- (iv) peak filing periods require secondment of extra audit staff to help in scoring process;
- (v) hard copy filing of returns is delayed due to the scrutiny of every return.

### Alternative II

This alternative proposes that manual audit scoring only be performed for corporations returns which have tax liability of more than \$100 and gross revenue of \$25,000 or more. Minimum tax returns would be assigned an audit selection score automatically by the computer system, during the return acceptance procedure, according to predetermined criteria. Also suggested in this alternative would be a periodic audit sampling of a small amount of automatically scored returns to monitor the effectiveness of the automatic scoring programme and the associated criteria.

### Advantages

- (i) manual audit selection scoring would be eliminated for approximately 80,000 returns annually;
- (ii) secondment of extra audit staff would be reduced or eliminated during peak filing periods;
- (iii) manual audit effort would be directed more to those returns with higher audit recovery potential;
- (iv) manual monitoring of automatic scoring effectiveness would be available.

### Disadvantages

- (i) all returns would not receive the same degree of auditor review;
- (ii) the monitoring of compliance effectiveness would be reduced;
- (iii) the manual effort required to score more complex returns would still be substantial.



### Alternative III

This approach considers the effects of automatically scoring all returns for audit selection according to criteria supplied to the computer system.

#### Advantages

- (i) manual effort would not be required in the scoring process, thus releasing more auditors for higher level audit activities;
- (ii) peak filing periods would have no effect on the audit selection scoring procedures;
- (iii) all returns would be scored according to consistently applied criteria;
- (iv) the selection process could be monitored by the computer system to determine trends and provide analysis information concerning the effectiveness of the selection criteria;
- (v) third party data could be used to augment the selection criteria on a continual or period basis: this data could come from Revenue Canada Corpac files or accumulated FDA information.

#### Disadvantages

- (i) an automated scoring system would be dependent on the accuracy of the return information which would be entered to the computer system without auditor scrutiny;
- (ii) the data base files and return acceptance procedures might have to be expanded to provide sufficient information for effective automatic scoring;
- (iii) establishment of such a programme would require extensive testing and evaluation.



## Recommendation

For the immediate future it is recommended that automatic audit selection scoring be established for corporations with tax liability of \$100 or less and gross revenue of less than \$25,000. Other returns would continue to undergo a manual scoring procedure subsequent to return acceptance.

In the longer term a completely automated selection system should be pursued.

Data capture of manual audit selection scoring results should be effected through the centralized data entry operation for the immediate future; but as on-line entry and update activities become more common in the Branch, the on-line entry of this data should be considered.

## Summary of Implementation Level Consequences And Recommendations

At the implementation level the following measures should be enacted for return processing and audit selection scoring:

- (i) assignment of sequence numbers to returns should be done as an initial function as returns enter the Tax Return Centre. Manual batching requirements should be relaxed to allow segregation of returns into two processing streams and control of returns entering the system should be accomplished through the computer system;
- (ii) non-tax information changes should be effected through use of on-line updating capabilities;



- (iii) minimum tax returns should undergo a cursory examination for completeness and non-tax changes and then be forwarded for data entry;
- (iv) non-minimum tax returns should undergo the same cursory examination for completeness and non-tax changes; but also undergo a more extensive validation procedure to ensure that required associated documents are present, and to verify that figures on the front page of the return are consistent with associated figures on other pages of the return and associated financial schedules and statements. To accommodate this lesser degree of checking (than present) the automated system should perform verification of tax calculations and proration requirements. The dressing staff abilities should be upgraded to perform some of the present screening functions and interpretive checking which takes legislative requirements into account should be postponed until the audit selection scoring function;
- (v) return data should continue to be captured in the centralized data entry operation for the immediate future, with serious consideration being given to optical character recognition data capture methods in the longer term;





- (vi) audit selection scoring should be automated for minimum tax corporations in the immediate future (to correspond to the fast path segregation procedure for return acceptance) while other returns should continue to be manually scored.

In the longer term consideration should be given to automatically scoring all returns for audit selection according to criteria supplied to the computer system. Data capture of manual audit selection scoring results should be effected through the centralized data entry function in the immediate future, while on-line entry should be considered for the future as on-line entry and updating techniques become more commonplace throughout the Branch.



### 7.1.3 Accounts Process

This section examines the four major functions associated with the accounts process: reassessment processing; original billing (assessments); refund validation; and inquiry processing.

#### 7.1.3.1 Reassessments

##### 7.1.3.1.1 Current Procedure

A corporation may be reassessed as a result of an audit, an amended return, a loss carry back situation, or a federal reassessment. The change of tax is submitted to the system by means of an audit worksheet and upon acceptance, the system produces a notice of reassessment.

At present some reassessments are automatically billed, but the majority require manual intervention by the Accounts Section. The manual intervention requires a staff of ten penalty and interest assessors; plus support staff within the Accounts Section, Data Entry, and Word Processing Centre.

The penalty and interest assessors are responsible for the calculation of interest and penalties and completion of the working copy of the reassessment. The resultant billing documents are batched and forwarded to the Input/Output Section and subsequently to the Data Entry operation. Once the data has been keyed and edited, the working copies are returned to the Accounts Section and then to the Word Processing Centre for typing and mailing of the final bill. Currently the weekly output of basic reassessment averages approximately 500.



## Conditions Causing Basic Reassessments

Basic reassessments will be treated in three categories for purposes of examining alternative approaches. These are:

- (i) where there is a possibility of adjustment to previously charged instalment interest when a decrease in tax exists;
- (ii) those which are coded by the auditors for manual billing (i.e. loss situations where tax before loss must be established);
- (iii) others.

The "other" category includes reassessments where:

- (i) the account is inactive;
- (ii) other arrears are outstanding;
- (iii) other sections of the branch are interested in the account;
- (iv) a changed fiscal period is prior to the oldest assessment on the data base file;
- (v) a credit balance exists in a assessed year.

### 7.1.3.1.2 Tactical Level Alternatives

The following alternatives address those manual reassessments which require re-opening of instalment interest calculations because the tax has been decreased.

#### Alternative I

This alternative considers the use of extended transaction and assessment data on the data base file to facilitate the recalculation of instalment interest. In some cases the transaction data is already available; however, previous billing information would have to be retained on the data base file.



### Advantages

- (i) the extended data will allow recalculation of instalment interest to be done automatically for reassessment caused by decrease in tax in some cases.

### Disadvantages

- (i) it will take time to build up useful data on the data base file making the automation process gradual;
- (ii) currently, most reassessment years would not have sufficient data to allow automatic recalculation of interest;
- (iii) journal entries entering the system subsequent to the original interest calculations will have to be identified and accommodated in the recalculation of interest.

### Alternative II

This alternative purposes the use of a constant formula, realizing that certain factors are constant (e.g. dates of payment, and amounts of payment). The system should be able to: recalculate instalment interest on the revised tax base; adjust the original calculation; realize the variance and establish the new interest chargable or payable. A requirement of this alternative would be to store an interest calculation "number" on the data base file, to avoid the necessity of reaccessing transaction data items.

### Advantages

- (i) the computer system will automatically recalculate instalment interest according to the formula;
- (ii) no legislative amendments would be required.





### Disadvantages

- (i) there may be journal entries for the account subsequent to the establishment of the base interest formula which will affect subsequent interest calculations;
- (ii) older tax year reassessments would not be accommodated unless base interest figures were established and data may not be available to do this;
- (iii) this alternative requires complex programming and interpretations to accommodate variable legislative requirements, and because of the lack of comprehensive data for older tax years, may introduce unacceptable inconsistencies to reassessment billings.

### Alternative III

This alternative advocates changing the section within the Corporations Tax Act specifically dealing with the interest provisions, to eliminate the requirement to re-open instalment interest calculations for decrease tax situations.

### Advantages

- (i) administration of the provisions would be more manageable both for staff resources and system application;
- (ii) the change in legislation would simplify interest accounting;
- (iii) approximately 50% of the basic reassessments would be automated by amending the interest provisions resulting in a saving of approximately 5 man years.

### Disadvantages

- (i) there may be a small number of disparities to the taxpayer because instalment interest calculations are not reopened;
- (ii) changing legislation to accommodate administrative ease should only be done as a last resort.



The following alternative address loss carry back situations.

#### Alternative I

This alternative proposes automation of L.C.B. reassessments. In order to accurately establish a basis for interest calculations on reassessments affecting losses which are carried back, it is necessary to establish the tax prior to the loss, before any credit interest can be calculated. By capturing tax before loss from the audit worksheet and programming the system to calculate the interest accordingly, these reassessments could be automated.

#### Advantages

- (i) system will be able to calculate interest automatically, making the reassessment a direct bill;
- (ii) a saving of approximately 3 man years will result from the automation;
- (iii) the tax figure before loss is already entered by the auditor on the audit worksheet.

#### Disadvantages

- (i) there would be a minimal increase in data capture requirements.



The following alternatives deal with those remaining causes for manual reassessment at a tactical level.

#### Alternative I

This alternative advocates storing of effective dates of inactivity on the data base file for purposes of automating difference in tax interest calculations.

#### Advantages

- (i) a further decrease in manual reassessments would result;
- (ii) a reduction in manpower requirements to complete manual reassessments would result.

#### Disadvantages

- (i) none.

#### Tactical Level Recommendations

At the tactical level it is recommended that:

- (i) re-opening of tax years should be discontinued by inacting legislative change;
- (ii) tax before loss should be entered into the computer system to allow automatic interest calculations for loss carry back situations;
- (iii) effective dates of inactivity should be stored on the data base system to allow automated calculation of interest for inactive accounts.



### 7.1.3.1.3 Implementation Level Alternatives

#### Alternative I

This alternative would involve the Accounts staff using the on-line interactive environment to effect a direct billing situation. Each update of audit worksheets would recognize reassessments which cannot be automatically handled and the interest and penalty assessor would access the data base file on-line to enter missing data and ensure that the account can be automatically billed. The reassessment would be produced automatically by the computer system.

#### Advantages

- (i) only data which is needed to put accounts in direct billing situations would be supplied to the computer system by Accounts staff;
- (ii) consistency in the interest calculation would result as all bills would be computer produced.

#### Disadvantages

- (i) it is not desirable to re-enter missing transactions, such as payments and journals to the system because it could jeopardize the accounting system;
- (ii) all reassessments situations could not be handled in this manner and an alternate procedure would be required.





## Alternative II

This alternative advocates the usage of the interactive on-line system as an aid for inacting interest calculation.

### Advantages

- (i) reduced manual effort required to calculate interest would result;
- (ii) interest calculations would be consistent for all reassessments because they would be computer produced.

### Disadvantages

- (i) sufficient volume of reassessments would be required in order to justify the implementation of such a measure.

## Alternative III

This alternative proposes that code 4 turnaround documents be produced for direct refund reassessments to facilitate the refund checking procedures, and to replace the present listing produces in the present system.

### Advantages

- (i) refund checking procedures would be consistent for all direct refund billings;
- (ii) a reduction in manual effort to prepare code 4 documents would result.

### Disadvantages

- (i) none.



## Alternative IV

This alternative proposes that the remaining basic reassessments be completed manually as present, and the resultant input to the computer system inact computer printing of the final bill, rather than utilizing the word processing equipment as is the present procedure.

### Advantages

- (i) a reduction in typing effort in the Word Processing Centre would result.

### Disadvantages

- (i) none.

### Implementation Level Recommendations

It is recommended that:

- (i) turnaround code 4 document be produced for direct refund reassessments and be processed as part of the proposed refund checking procedure;
- (ii) reassessments still required to be completed manually, be completed as in the current procedures, but the printing of the final reassessment notice be accomplished through the computer system, rather than the word processing system;
- (iii) in the longer term, on-line technologies be applied as aids in the manual reassessment completion procedures. (i.e. interest calculation and the supplying of missing information to accounts which can be easily put in a direct billing situation).



### 7.1.3.2 Assessments

Each corporation is required to file a Corporations Tax return based on its predetermined taxation period. Upon receipt, every return is assessed and an assessment notice is sent to the taxpayer verifying his tax position for the fiscal period. As a rule, the corporation's estimate (or self assessment) is accepted for the initial billing. Approximately 162,000 returns are presently processed annually of which 149,000 are automatically billed and require little or no manual intervention. The balance of 13,000 are termed "basic". These require manual intervention and are the primary area of consideration in the following sections.

#### 7.1.3.2.1 Current Procedure

Current weekly production of manual assessments from the computer system is approximately 250. Such bills are triggered by circumstances which prevent the computer system from processing the assessments as automatic or "direct" bills. These conditions are outlined as follows:

- (i) all inactive status accounts require special handling, i.e. dates to which interest is to be calculated (bankruptcy, amalgamation, preferred claims etc.) are not presently available to the computer system: this condition accounts for 35% of all basic assessments;
- (ii) if an overpayment is present in the previous taxation period, the system produces a basic bill to allow for the fact that the overpayment might be misallocated and should be applied to subsequent taxation period(s): this condition accounts for 25% of basic bills;
- (iii) a corporation may change its fiscal period, thus creating a double fiscal or broken fiscal situation: this condition requires that interest calculations are made on a varied formula of dates



and considerations must be given to which payments apply to the billing of each part of the broken fiscal: this condition accounts for 12% of basic bills;

- (iv) if the current taxation period has an overpayment, but arrears are present in the prior periods, a basic bill is produced: the Accounts staff must then determine whether the overpayment should be applied to the arrears or refunded: this condition accounts for 10% of all basics;
- (v) the balance of basic conditions (18%) comprise varied conditions such as unusual transaction conditions and indication of intervention requirements by other sections of the Branch.

For basics, the Interest and Penalty clerk must determine the dates to which interest is to be calculated and must use acquired judgement as to whether monies are misallocated, and if so, to make the appropriate journal entries. In all cases, debit and/or credit interest must be calculated according to the instalment requirements and the schedule of payments of the corporation.

The completed data is then submitted to the Input/Output section for data capture preparation and subsequently to the centralized data entry operation. The source documents are returned to the Accounts Section where they are matched to the original copy and forwarded to the Word Processing Centre for the completion of the final notice of assessment. The notice of assessment is mailed to the taxpayer or his representative and the working copy is forwarded to the Corporations Tax Branch filing room.

Where inactive corporations are involved, the assessments are often forwarded to either Collections for proof of claim preparations or to the Tax Roll section (in the case of amalgamations etc.) before being mailed to the taxpayer.





#### 7.1.3.2.2 Tactical Level Alternatives

##### Alternative I

This alternative proposes that the data base file be extended to include effective dates of inactivity for inactive accounts. Additionally, an indication of whether payments had been used in previous tax year billings might allow double fiscal situations to be automated.

##### Advantages

- (i) instalment interest calculations could be performed by computer for inactive accounts, (35% of all basic assessments);
- (ii) broken periods/double fiscals could be automated, thus reducing dependency on manual effort and reference to the hard copy file;
- (iii) reduction in typing and data entry requirements would be realized;
- (iv) reduction of non-OCR remittances advices received by the Revenue Processing Centre would further reduce manual effort.

##### Disadvantages

- (i) there would be a marginal increase in data capture (i.e. to capture date of inactivity);
- (ii) there would be a limited increase in computer storage requirements.

##### Alternative II

This alternative advocates that a policy be pursued of producing direct (automatic) bills and of routing the resultant assessments to the appropriate branch staff, when intervention is required before mailing to the taxpayer.



#### Advantages

- (i) there would be a reduction in time spent on manual interest calculations in the Accounts Section;
- (ii) there would be a reduction in typing effort;
- (iii) there would be reduced reference to hard copy files.

#### Disadvantages

- (i) there might be a slight risk of reducing the billing accuracy due to the bypassing of Account Section scrutiny.

#### Alternative III

This alternative proposes the elimination of unnecessary conditions under which basic assessments are currently produced.

#### Advantages

- (i) this alternative would eliminate conditions where other billing has occurred in the same computer run;
- (ii) overpayment situations where there is prior arrears would more appropriately be handled by the refund checking procedure.

#### Disadvantages

- (i) in a small number of cases multiple billings may be confusing to the taxpayer.

#### Alternative IV

This alternative advocates a policy of delayed billing whereby potential basic billing accounts would be highlighted and repaired for direct (automatic) billing in the subsequent billing run.



### Advantages

- (i) a greater volume of assessments would be produced and printed on the computer system;
- (ii) there would be reduced access to hard copy files;
- (iii) there would be reduction in typing and data entry requirements;
- (iv) there would be increased operational efficiency in dealing with basics by exception.

### Disadvantages

- (i) the proposal would not allow all bills to be direct and an alternate manual procedure for other bills would be needed.

### Tactical Level Recommendations

At the tactical level it is recommended that:

- (i) the data base be extended to include effective dates of inactivity and to allow automatic interest calculations for inactive accounts;
- (ii) direct bills be produced for those accounts requiring scrutiny by other Branch sections, and that these direct bills be routed from the computer to the appropriate staff;
- (iii) unnecessary basic billing conditions be eliminated which deal with the consolidation of multiple billings and the resolution of refund validation;
- (iv) a delayed billing policy be introduced for those manual billing accounts that can be made direct by repair actions.



### 7.1.3.2.3 Implementation Level Alternatives

#### Alternative I

This alternative would require the extensive use of the on-line system to complete manual assessments. The billing section would receive, through the facilities of the on-line system or a listing, notice of all bills that can not be billed directly. By providing the necessary adjustments, and repairing the account on-line, the system would then produce these bills as direct assessments in the next batch billing run.

#### Advantages

- (i) the data base and the account transactions would be accurate for each taxation period at the time of billing: the assessment notices sent to corporations and the computer file would correspond in information;
- (ii) manual effort could be concentrated solely on repairing accounts (i.e. no bill preparation or interest calculations);
- (iii) input to the computer system would be minimized, and reflected in reduced support function effort;
- (iv) audit trails of changes to accounts during the billing process could be produced and would provide a more comprehensive trail of billing actions (especially where interest adjustments are made and only reflected in the code 9 total);
- (v) reduced typing would result since the assessments would be direct and printed by the computer system.





### Disadvantages

- (i) not all situations could be handled in this manner;
- (ii) some manual or "D" bill assessments would require an alternative procedure;
- (iii) some bills could be caught up in the repair process causing delayed billing to the taxpayer.

### Alternative II

This alternative would involve the Accounts staff using the on-line system interactively to complete the final bill. The system would produce a record of basic assessments on-line. By using the terminal system the clerk would complete interest calculations, determine instalment payments, and effect the printing of the bill on a terminal printer. Alternatively, the final bill could be stored for later printing in a batch computer run.

### Advantages

- (i) there would be a reduction in both the data entry and the typing requirements;
- (ii) there would be a considerable speed up in the processing of these bills;
- (iii) the manual effort of the penalty and interest assessors would be minimized in the production of these assessments;
- (iv) there would be an automatic, standardized, interest calculation for all bills.

### Disadvantages

- (i) a higher development and operational cost would result;
- (ii) a duplication of billing logic would result in the batch update and on-line systems, creating potential system maintenance problems;
- (iii) the volume of basic bills would not warrant such a system.



### Alternative III

This alternative would involve the Accounts staff employing the current operational procedure, with the exception of effecting the printing of the final bill through the computer sytem rather than the word processing system.

#### Advantages

- (i) reduced typing requirements would result;
- (ii) development costs would be minimal;
- (iii) the procedure could adequately handle the projected small volume of basic assessments.

#### Disadvantages

- (i) the Accounts staff would continue to complete basic assessments manually;
- (ii) centralized data entry would still be required to enter the final billing results into the computer system;
- (iii) the code 9 transaction might need to be expanded to accommodate computer printing of the final assessment notices and to eliminate the need to co-ordinate the input of code 9 and journal entries.

#### Implementation Level Recommendations

At the implementation level, it is recommended that:

- (i) the current manual practice of completing the small number of remaining basic assessments be continued, with the enhancement that the printing of the final assessment notice be effected through the computer system;
- (ii) if the volume of basic bills rises to a level where additional manpower is required, that the on-line system be used to aid in the manual completion of assessment notices (e.g. automation of interest calculations).



#### 7.1.3.3 Refunds

Refund situations arise in the Corporations Tax system when overpayment of tax is reflected at the time of original assessment, or when a credit results from a decrease reassessment. This section outlines the current refund validation and cheque issuance procedures and considers alternative methods of processing.

##### 7.1.3.3.1 Current Procedure

In direct billing situations the computer system provides notification of refund situations to the Accounts staff through: the production of turnaround code 4 journal documents in the direct assessment process; and the production of a listing in the direct reassessment process.

##### Code 4 Validation

The Accounts staff check all direct billing refunds for validity. The prime concerns of the validation procedure are to correct misallocation errors and to ensure that monies are not refunded against the taxpayers' intent. Information used in the procedures is obtained from the hard-copy files, the on-line retrieval system and ledger histories.

When the refund clerk is satisfied with the validity of the proposed refund the turnaround code 4 journal or manually prepared code 4 journal is submitted to the computer system to effect the printing of a refund voucher.

In some priority or special cases the refund vouchers are prepared manually and the computer produced voucher is suppressed when the code 4 journal is input to the system.



### Voucher Validation

A refund control summary list is produced as the result of code 4 journals entering the computer system. The computer produced refund vouchers are checked against this list by the Accounts staff. As well spot checks are performed on the vouchers to make sure subsequent account activities do not obviate the refund. Taxpayer communications requesting that the refund be cancelled also require the Accounts staff to intervene in the refund process after the voucher has been produced. Considerable effort is made, until the final cheque requisition, to minimize the risk of refunding monies incorrectly.

### Cheque Requisition

Cheque requisition is effected by providing the Ministry of Government Services with a copy of the paper refund vouchers. These documents undergo a manual data capture process and are input to the automated cheque issuance system. Two copies of the voucher are retained in the Corporations Tax hard copy files and the Accounts Section for reference. The fourth is retained by the Financial Services Branch for cheque issuance control and reconciliation.

The refund cheques, together with the first copy of the voucher, are mailed to the taxpayer, while a listing of cheques issued is forwarded to the Corporations Tax Branch for audit trail purposes.

#### 7.1.3.3.2 Tactical Level Alternatives (Refund Validation)

This section considers tactical level alternatives for refund validation procedures.





## Alternative I

This alternative considers the possibility of refunding all overpayments as part of the direct billing process without manual intervention. This would include automatic storage of the refund entry on the data base file (i.e. automatic code 4 journal entries)

### Advantages

- (i) there would be no requirement for manual intervention to validate refunds associated with direct bills;
- (ii) a reduction in data entry would be realized as there would be no need for a code 4 journal entry to be keyed.

### Disadvantages

- (i) there is some risk of incorrect or unwanted refunds being made due to misallocation of cash;
- (ii) this alternative would not accommodate all refund procedures (e.g. basic assessments and reassessments as well as priority cases).

## Alternative II

This alternative would involve retaining manual intervention for validating refunds; but would discontinue the practice of validation checking after the code 4 journal has been submitted to the computer system and the voucher produced. All refund vouchers would be produced as the result of code 4 journals being submitted to the computer system.

### Advantages

- (i) the Accounts staff would continue to use their power of discretion to determine the validity of refunds;
- (ii) the post voucher validation will be eliminated, thus reducing manual effort by approximately 3 man years.



### Disadvantages

- (i) manual intervention is still required.

### Tactical Level Recommendation (Refund Validation)

It is recommended that manual intervention be retained in the refund validation procedures, since misallocation problems would introduce too many inaccuracies to the completely automated procedure. However, it is also recommended that the amount of validation checking be reduced so that approval of the code 4 journal entry constitutes approval of the refund. Checking of vouchers should be eliminated.

#### 7.1.3.3.3 Implementation Level Alternatives (Refund Validation)

##### Alternative I

This alternative proposes on-line validation of refunds. A holding data base would store the proposed refund details as determined in the automated billing process. The Accounts staff would verify the validity of the refund using the on-line system and release valid refund transactions to the computer system to update the data base file and initiate cheque requisition.

### Advantages

- (i) all data entry pertaining to the refund procedure would be eliminated;
- (ii) controls would be enhanced by eliminating of paper handling;
- (iii) faster refund validation would result in better service to the taxpayer.



### Disadvantages

- (i) retraining of staff would be required;
- (ii) there would be an increase in on-line equipment and data processing costs;
- (iii) this method would not accommodate all refund situations (e.g. special cases and refunds associated with manual billings).

### Alternative II

This alternative proposes the retention of the paper code 4 journal document as a vehicle for refund validation and as a means of entering finalized input to the update system.

### Advantages

- (i) this method accommodates all refund situations;
- (ii) it is the most economical approach for current volumes (approximately 600 per week).

### Disadvantages

- (i) some paper handling would still be required;
- (ii) data entry effort would still be required;
- (iii) processing of all refunds is dependent on manual controls.

### Alternative III

This alternative would involve the use of optical character recognition techniques to capture code 4 journal information.

### Advantages

- (i) manual data entry would be reduced.



### Disadvantages

- (i) volumes of data entry may not justify the cost of such equipment;
- (ii) code 4 journal data would have to be adjusted at data capture time for some situations.

### Implementation Level Recommendation (Refund Validation)

It is recommended that paper code 4 journal entries continue to be used as the vehicle for effecting refund validation in the immediate future. In the longer term as on-line techniques are used more extensively throughout the Branch, replacement of the code 4 documents with an on-line file should be considered.

### 7.1.3.3.4 Tactical Level Alternatives (Cheque Requisition)

This section considers methods for effecting the cheque requisition for refunds.

#### Alternative I

This alternative considers the retention of the paper voucher system for effecting cheque requisition.

#### Advantages

- (i) the current system would provide for some additional flexibility (e.g. ability to cross reference refunds to other billing documents);
- (ii) special or exceptional cases can be handled in a more urgent manner;
- (iii) larger degree of freedom available when cheque interception is desired.

#### Disadvantages

- (i) large amounts of paper would continue to be handled;
- (ii) multiple methods of producing vouchers would remain;
- (iii) heavy data capturing requirements remains for MOGS;





- (iv) possibility of inaccuracies remain due to the requirement to transcribe and capture data;
- (v) there would be a higher degree of complexity in the reconciliation procedure;
- (vi) some security risks are evident.

## Alternative II

This alternative would involve the replacement of the paper voucher requisition system by cheque requisition on magnetic tape.

Upon receipt of the code 4 journal entry, the system would write a cheque requisition tape in the format required by the Government Payment Branch. The system would also produce a report indicating the total dollar value and units contained on the cheque requisition tape. This report would provide information to the Financial Services Branch and the tape would be sent to MOGS and matched with the requisition. Government Payment Branch would run the cheque production and mail the cheques to the taxpayer. A listing of cheque production would be issued and forwarded to the Corporations Tax Branch for verification.

## Advantages

- (i) paper voucher handling would be eliminated;
- (ii) data capture by MOGS would be eliminated;
- (iii) data base file information will be consistent with the cheque information;
- (iv) typing effort will be reduced as there will be no need for manual voucher preparation;
- (v) security will be enhanced.

## Disadvantages

- (i) the flexibility of cross referencing and relating refunds to other billing documents would be lost;
- (ii) the facility of intercepting a cheque prior to mailing may prove to be more complex.



### Recommendation (Cheque Requisition)

It is recommended that cheque requisition be enacted by producing a magnetic tape that can be used as input to the Ministry of Government Services' standard cheque writing system.



#### 7.1.3.4 Inquiries

The Correspondence and Inquiry Section is the main source to which the taxpayer can refer for information pertaining to his account status. The application of various interest and instalment provisions of the Corporations Tax Act lead to many inquiries.

##### 7.1.3.4.1 Current Procedure

The section currently receives approximately 35,000 inquiries annually of which 50% are received by telephone and 50% by correspondence. The personnel has access to the information retrieval system via three CRT terminals to assist in answering the inquiries. Seven correspondence and inquiry clerks and a supervisor staff the area.

Inquiries of a general nature (i.e. account balance, tax year allocation) are, as a rule, dealt with and settled immediately over the telephone. In cases where the taxpayer requests clarification of interest and penalty charges, then a detailed review must take place, and support documents must be manually produced and forwarded to the taxpayer.

The staff in this area are primarily experienced people who are familiar with the various requirements of the Corporations Tax Act and all of the procedural and administrative functions within the Accounts Section.

##### 7.1.3.4.2 Tactical Level Alternatives

###### Alternative I

This alternative proposes extension of the amount of information immediately available to the Inquiry area.



### Advantages

- (i) a reduction in reference to hardcopy files would ensue;
- (ii) service levels would be upgraded and reflected in more immediate response to taxpayer inquiries;
- (iii) there should be a reduction in written replies, as more inquiries could be handled over the telephone.

### Disadvantages

- (i) there would be increased costs associated with making information more available.

### Alternative II

This alternative proposes improvement in the Accounting presentation of documents sent to the taxpayer.

### Advantages

- (i) by redesigning the forms (e.g., CTR's, billing notices) and revising the accounting presentation, these vehicles of taxpayer communication could become more comprehensive and should reduce overall inquiries;
- (ii) the accounting presentation would be standardized to conform with conventional methods;

### Disadvantages

- (i) by supplying more detailed information on documents an increase of inquiries might result from some taxpayers.





### Alternative III

This alternative proposes that the cash allocation procedures be improved within the Revenue Processing Centre to reduce the number of inquiries resulting from initial billing.

#### Advantages

- (i) there would be a reduction in the number of taxpayer inquiries as a result of more accurate information.

#### Disadvantages

- (i) none.

### Alternative IV

This alternative advocates the establishment of a branch-wide information service which would act in a proactive as well as reactive manner for disseminating information.

#### Advantages

- (i) a common telephone number to call for information would be available to the taxpayer;
- (ii) there would be greater feedback analysis as to the effectiveness of the Branch's programmes;
- (iii) the Branch would be able to react in a proactive manner to educate the taxpayer of our programmes by means of information dissemination;
- (iv) there would be less interruption of primary accounting functions;
- (v) multiple functions could be concentrated in one area for providing response to taxpayers.



### Disadvantages

- (i) staff would require multiple skills (knowledge) relating to all functional areas;
- (ii) proactive programmes may be difficult to measure in terms of cost/effectiveness.

### Tactical Level Recommendations

At the tactical level it is recommended that:

- (i) more information be available to the Inquiry Section;
- (ii) the accounting presentation be improved on billing documents and remittance advices to promote taxpayer understanding;
- (iii) the cash allocation procedures be improved; and
- (iv) in the longer term that a branch-wide information service be established to act in both a reactive and proactive manner for disseminating information.

### 7.1.3.4.3 Implementation Level Alternatives

#### Alternative I

This alternative would involve the extension of the data base, by not overwriting billing, return, and transaction data, and making this additional data available through the information retrieval system. In addition more CRT terminals would be made available to the Inquiry staff.



### Advantages

- (i) a large volume of inquiries would be answered immediately with information which is more accessible and readily available;
- (ii) this extended information would assist in producing interest calculation explanations and statements of account at inquiry time.

### Disadvantages

- (i) additional need for CRTs would increase the operating cost;
- (ii) there would be a minimal increase in storage costs.

### Alternative II

This alternative suggests that hard copy files correspondence be made available in micro-recorded form. It would require a duplicate micro-fiche master file of the tax roll to be situated in the Inquiry section.

### Advantages

- (i) access to complete file information would be more immediately available.

### Disadvantages

- (i) advantage is diminished unless copy of the complete file is made available;
- (ii) this concept requires commitment to the micro-fiche system of filing;
- (iii) continual updating of micro-fiche would be labour intensive;
- (iv) production of output response documents could not be accommodated as a by-product of information retrieval.



### Alternative III

This alternative considers on-line updating for journal entries at the time of inquiry. The clerk would access the data base file and effect the journal entry update through the on-line system.

#### Advantages

- (i) centralized data entry and I/O batching would be reduced;
- (ii) unit of work would be completed immediately.

#### Disadvantages

- (i) audit trail controls would have to be established as part of the implementation.

### Alternative IV

This alternative proposes that the on-line system be used to produce response documents to satisfy taxpayer inquiries. These documents would include statements of account and explanation of interest calculations.

#### Advantages

- (i) by automating the preparation of response documents, there would be a significant reduction in manual effort in the area of interest calculation and statements of account preparation and typing requirements;
- (ii) standard formats would make for consistency in response;
- (iii) response to inquiries would become more timely.

#### Disadvantages

- (i) the addresses on correspondence may not always be the same as on the data base file and additional typing effort to respond to some inquireies might be required.





## Implementation Level Recommendations

At the implementation level it is recommended that:

- (i) the data base file and the information retrieval system be extended to provide more historical return, billing, and associated transaction data. As well additional CRT terminals should be provided to take advantage of the extended information;
- (ii) on-line updating for journal entries be provided for the Inquiry section;
- (iii) the on-line system be used to produce inquiry response documents such as statements of account and explanations of interest calculations where possible.



#### 7.1.4 Tax Roll Process

This section examines the three major functions associated with the Tax Roll process of Corporations Tax Branch, outlines the current procedures employed in these functions and considers alternative methods of processing.

These functions are:-

New Companies, Cancellations, and Taxpayer Initiated Removals or Reinstatements.

##### 7.1.4.1 New Companies

This section examines the method in which companies are added to the Corporations Tax Branch tax roll and reviews the dependency on the Ministry of Consumer and Commercial Relations (MCCR).

##### 7.1.4.1.1 Current Process

All individuals wishing to incorporate a company under the laws of Ontario must register with the Companies Branch of the Ministry of Consumer and Commercial Relations.

M.C.C.R. establishes a file and issues the Articles of Incorporation for approximately 25,000 new corporations annually. This information (i.e. name, address, incorporation date) is forwarded to the Corporations Tax Branch on computer tape. The information is recorded on the Corporations Tax data base. Corporations are then contacted to establish the taxation period and other pertinent data by means of a computer produced questionnaire letter.



Corporations which are incorporated under laws other than Ontario may have an Ontario head office and may operate in Ontario but are not required to register with M.C.C.R. The Corporations Tax Branch Tax Roll Investigation unit has the responsibility of establishing liability by initially identifying the corporation from the following sources of information:-

- . Canada Gazette (Federal bulletins);
- . Federal Notice of Assessment or Re-assessment;
- . Corporations tax returns or payments where no corresponding account record is set up on the data base.

Once the liability has been established, M.C.C.R. is requested to register the corporation on its files.

In summary, Corporations Tax Branch is dependent on M.C.C.R. to administer their responsibilities in setting up corporations on file and forwarding these data to the Corporations Tax Branch.

#### 7.1.4.1.2 Tactical Level Alternatives

##### Alternative I

This approach examines the consequences if Corporations Tax Branch should set up their own new company account information from data published in the Gazette, Federal Bulletins, or discharge the responsibilities of M.C.C.R.

##### Advantages

- (i) this approach would involve a more autonomous operation for Corporations Tax Branch and perhaps inspire more confidence in the data.

##### Disadvantages

- (i) this approach would be more labour intensive;
- (ii) a duplication of records would result;



- (iii) it would contravene de-regulation policy of ontario;
- (iv) it would not solve the policy of non-jurisdiction companies;
- (v) in taking over M.C.C.R. reponsibility, Corporations Tax Branch would be assuming a regulatory responsibility not directly related to tax collection.

## Alternative II

This alternative examines the effects if Corporations Tax Branch were to continue to interface and rely solely on M.C.C.R. for new companies information while deliberately pursuing a policy of strengthening the communication interface with M.C.C.R.

### Advantages

- (i) it would remain an efficient method of capturing data on Ontario companies;
- (ii) it would continue to allow Corporations Tax Branch to concentrate on tax administration only.

### Disadvantages

- (i) it would be less effective in capturing non-jurisdictional companies, since M.C.C.R. has no incentive to pursue these corporations because of a lack of enforcement capability;
- (ii) C.T. would remain dependent on the M.C.C.R. processing system and the frequency of its updates;
- (iii) there is a lack of timeliness in setting up a corporation (especially non-Ontario companies) on the Corporations Tax Branch data base;





- (iv) this approach might not be compatible with the daily update concept of Corporation Tax Branch;
- (v) C.T. would continue to depend on M.C.C.R. to allocate account numbers;
- (vi) payments might have to be allocated to the suspense account pending receipt of new company information from M.C.C.R.;
- (vii) C.T. would still require to follow up with a questionnaire to the new corporation.

### Alternative III

This alternative examines a dual system whereby Corporations Tax Branch would continue to rely on M.C.C.R. to set up Ontario companies, while setting up non-jurisdictional companies itself from federal information, tax returns, "non master" payments, or Federal payments, etc.

#### Advantages

- (i) maximum utilization would be made of the current setting up of Ontario corporations;
- (ii) "non-jurisdictional" set up would be more timely;
- (iii) it could eliminate delays in "non master" returns/payments processing.

#### Disadvantages

- (i) separate numbering allocation sysem for non-jurisdictional companies could create duplicate account problems;
- (ii) two streams of tax roll input would be difficult to co-ordinate;
- (iii) increased staff resources for investigating Federal Bulletins, would be required.



## Tactical Level Recommendations

The following recommendations are proposed for the establishment of new companies data on the Corporations Tax system:-

- (i) that Corporations Tax continue to interface with M.C.C.R. for new companies;
- (ii) that Corporations Tax strengthen its communication interface to M.C.C.R. with specific emphasis on setting up "non-jurisdiction" companies by an educational programme of outlining requirements of C.T. Branch.

### 7.1.4.1.3 Implementation Level Alternatives

#### Alternative I

This alternative proposes to improve the "22" questionnaire sent to corporations by expanding on the information content.

#### Advantages

- (i) there would be a reduction in the amount of manual effort required to establish complete corporate information for a new company;
- (ii) it would make more effective use of existing taxpayer contact and reduce the need for repetitive contact for information;
- (iii) the information received would be in a form which could be more readily interpreted.

#### Disadvantages

- (i) the "22" questionnaire is issued after initial set up by M.C.C.R.;
- (ii) it would be advantageous to have the information set up at initial incorporation time.



## Alternative II

This alternative proposes that M.C.C.R. capture additional corporate information including taxation periods, corporation mailing address, directors' name and addresses, etc, at initial incorporation time.

### Advantages

- (i) it would allow for "22" questionnaire to be a confirmation letter, decreasing the necessity of repeated contact with the taxpayer;
- (ii) the completed file would be set up faster, ready for normal business;
- (iii) there would be a reduction in effort required to input change transactions to computer system, thus decreasing the workload of junior investigations staff.

### Disadvantages

- (i) not all information could be obtained at this initial contact;
- (ii) the "22" questionnaire program would still be required;
- (iii) M.C.C.R. might be reluctant to capture additional data;
- (iv) M.C.C.R. might only be dealing with company representative, (i.e. lawyer).



### Alternative III

This alternative proposes the implementation of an on-line updating system for the Tax Roll section to facilitate "22" questionnaire data.

#### Advantages

- (i) more timely updating of file would reduce the clerical time involved in successfully completing the update to the computer files;
- (ii) would reduce transcription, batching, keying and confirmation time;
- (iii) the account record would be operational in a shorter time period, and would be able to receive return and payment data immediately.

#### Disadvantages

There appears to be no disadvantages with this proposal.

### Alternative IV

This alternative suggests that an effective interface with Federal Companies Branch should be established, to allow automatic computer checking for Dominion companies.

#### Advantages

- (i) this alternative would provide a means of determining if all Dominion registered companies doing business in Ontario are registered on the tax roll;
- (ii) it would act as a confirmation check list, thus being an external source of more information other than M.C.C.R. or C.T. investigations.

#### Disadvantages

- (i) additional administrative difficulties in relation to the normal M.C.C.R. - C.T. interface for setting up new companies might result;
- (ii) it would not concentrate on strengthening M.C.C.R.'s role in setting up 'non-jurisdiction' companies.





## Implementation Level Recommendations

At the implementation level, the following recommendations are made:-

- (i) that Corporations Tax Branch improve the 22 questionnaire for data content;
- (ii) that M.C.C.R. ask for additional information at time of incorporation;
- (iii) that an on-line system be developed to allow the Tax Roll section to change basic account information (such as fiscal period) immediately;
- (iv) lastly, that a federal interface be established as a checking device on the integrity of the tax roll of the Coprorations Tax Branch.



#### 7.1.4.2 Cancellations

##### 7.1.4.2.1 Current Procedure.

The Corporations Tax Branch, through the Minister of Revenue , may recommend to the Companies Branch of the Ministry of Consumer and Commercial Relations (MCCR) that the charter of an Ontario Corporation be cancelled. Certain conditions must be evident prior to activating this procedure:-

- . a Corporation has failed to file a Corporations Tax Return for the preceding 2 taxation periods;
- . a Corporation has applied for formal or voluntary dissolution;
- . a Corporation has declared bankruptcy;
- . a Corporation has voluntarily wound up its affairs;
- . a Corporation has amalgamated with another corporation;

Once these conditions are met, the Corporation is put on an inactive status (i.e. "G") and the automatic cancellation cycle is initiated. A letter is sent to the corporation stating the Corporations Tax Branch's intent to cancel the corporation. A magnetic tape is forwarded to MCCR containing the corporations that are to be cancelled through MCCR's computer system.

In due course, MCCR informs Corporations Tax Branch that the initial letter advising the corporation that the charter will be cancelled within 90 days has been issued. The information is published in the Ontario Gazette and the final cancellation letter is mailed by MCCR to the corporation. However, corporations with Dominion Charters doing business in Ontario cannot be cancelled by Ontario.

This system of interfacing through MCCR is basically sound in concept and is operating in an efficient manner.

##### 7.1.4.2.2 Tactical Level Alternatives



## Alternative I

This alternative proposes that the cancellation programme be accelerated to provide a more effective enforcement tool for the Default Section. This alternative would have the following effect: to those corporations which have been in default for 12 months and have not responded to normal compliance action, the Corporations Tax Branch would automatically issue a cancellation warning letter in place of the 'pre-145' letter, instructing the corporation that the corporation's Charter will be cancelled unless the return filing requirements are met within a certain period. If the company still fails to comply, the cancellation letter programme would be initiated, replacing the second year default letter cycle.

### Advantages

- (i) an increase in the effectiveness of the second cycle of the default action to achieve compliance;
- (ii) the elimination of the redundant second default letter actions;
- (iii) corporations which do not comply would be removed from the active Tax Roll more quickly.

### Disadvantages

- (i) there might be an increase in administrative effort associated with stopping cancellation action;
- (ii) an increased number of re-instatements, as well as claims against assets forfeited to the Crown, might result from the accelerated cancellations.

## Alternative II

This alternative proposes that Corporations Tax Branch accelerate the cancellation programme for select corporations in the collection cycle to act as a compliance mechanism for the Collections section. If an account at stage 3 which has not responded to previous compliance action were to accumulate more arrears over a period of time, cancellation action would be initiated instead of the followup collection letters. This would apply to non-manually worked corporations, and select manually worked corporations. Once a corporation has been



assessed and remains in arrears for a full year and subsequently is assessed for the following taxation period, action would be started to inform the corporation of the cancellation procedures that will be put into effect, unless the arrears payments are made.

#### Advantages

- (i) increased positive action in collecting the arrears sooner, versus the current system of restarting the collection cycle;
- (ii) there would be a faster cleanup of non-complying corporations.

#### Disadvantages

- (i) an increase in the number of write-offs might occur;
- (ii) there might be additional administrative effort in stopping some collection actions;
- (iii) an increased number of re-instatements might result.

#### Recommendation

On the basis of the foregoing discussions, it is recommended that:

- (i) the Corporations Tax Branch accelerate the cancellation programme for both default and arrears corporations with a view towards improved compliance by the taxpayer.

#### 7.1.4.2.3 Implementation Level Alternatives

##### Alternative I

This operational alternative involves the vehicle by which Revenue Canada is advised of Corporation Tax Branch's intention to cancel a corporation. The proposed alternative would involve the automation of this process by forwarding the data on a magnetic tape containing the corporations which are about to be cancelled.





### Advantages

- (i) a more efficient method of transmitting cancellation data information;
- (ii) less paper flow between Corporation Tax Branch and Revenue Canada;
- (iii) no data capture requirements for this method.

### Disadvantages

- (i) there are no disadvantages with this proposal.

### Alternative II

This alternative proposes that an on-line updating system be implemented for the purpose of updating cancellation indicators.

### Advantages

- (i) it would reduce the manual effort and time associated with transcribing, batching, and data capture;
- (ii) confirmation of data would be instantaneous;
- (iii) the Corporations Tax Account data base would reflect accurate cancellation action more quickly.

### Disadvantages

- (i) in view of other Tax Roll on-line recommendations for updating basic account changes on the data base, there would be no disadvantages associated with this proposal.

### Recommendations

On the basis of the foregoing discussions, it is recommended that:

- (i) the Corporations Tax Branch notify the Federal Government of pending cancellation actions via the medium of magnetic tape for more efficient communication;
- (ii) that an on-line updating capability be developed to allow Tax Roll to change cancellation indicators through terminal input.



#### 7.1.4.3 Taxpayer Initiated Removals/Reinstatements

##### 7.1.4.3.1 Current Procedure

A corporation incorporated under the laws of Ontario may apply for a formal dissolution of the corporation. The intention of dissolution may be published in the Ontario Gazette or submitted by letter.

Corporations Tax Branch contacts the corporation and advises that prior to giving consent for dissolution all tax requirements, including the payment of taxes, must be met up to the date of dissolution. Once the information is received and taxes paid, a consent letter is issued to the corporation advising that the Articles of Dissolution must be filed within 21 days with the Ministry of Consumer and Commercial relations.

Once this is done, M.C.C.R. advises Corporations Tax Branch and subsequently the corporation is removed from the active tax roll by putting it in status X.

##### 7.1.4.3.2 Tactical Level Alternatives

No major directional changes are recommended for this function. Corporations Tax Branch controls only voluntary dissolutions. Other surrenders are under other jurisdictional legislation, i.e., Bankruptcies, Winding-up Act, Federal Companies Act, etc.,.

##### 7.1.4.3.3 Implementation Alternatives

###### Alternative I

This alternative proposes that the computer system be utilized in the current consent procedure to produce automatic consent letters and to initiate followup action which would monitor account status changes and the effective dates of status revision.

###### Procedure

The proposed procedure would involve the production of the initial taxpayers requirement letters through the computer:



in the event of the consent period lapsing and the taxpayer having to initiate the consent procedure again, the facility would exist in the system to bypass this taxpayer requirement letter for subsequent applications. Confirmation of receipt of the necessary returns and payments into the Corporations Tax Branch would be produced by computer listing. Notification would be given by the computer of the expiry of the date of the consent as a followup reminder, and will indicate the status revision of accounts reverting to active status. Ultimately the final consent letter will be produced by the computer system.

#### Advantages

- (i) there would be a substantial reduction in labour intensive work;
- (ii) all follow-up actions are automatically triggered by computer system;
- (iii) the data base would be updated more quickly;
- (iv) there would be a reduction in typing of letters and associated manual signings;
- (v) recorded dates could be used for automatic interest calculations during billing of inactive accounts thereby reducing the basic bill production.

#### Disadvantages

There appears to be no disadvantage with this implementation level proposal.

#### Alternative II

Where amalgamations and bankruptcies are dealt with, this alternative proposes that effective dates and new account number reference to amalgamations be stored on the data base.

#### Advantages

- (i) it would provide a cross-reference of amalgamated accounts;
- (ii) recorded dates could be used for automatic interest calculation in the billing of inactive accounts.

#### Disadvantages

There are no disadvantages with the above proposal.



### Recommendations

On the basis of the foregoing discussions, it is recommended that:

- (i) Corporations Tax Branch develop an automatic consent followup system;
- (ii) the effective dates of amalgamation or bankruptcy be stored on the data base;
- (iii) the new account number reference be stored on the amalgamated account record on the data base.









## 7.2 Revenue Control Alternatives

The following section reviews those major functions of the Corporations Tax Branch which comprise Revenue Control , as defined in the tax model, and examines alternative approaches to the Revenue Control activities.

These functions include:

Collections, Default, Non-discretionary Audit, Extended and Field Audit, Liens, and Tax Roll Investigations.



## 7.2.1 Collections Process

### 7.2.1.1 Current Procedure

All corporations recorded on the Corporations Tax Branch tax roll are required to file a return and pay taxes annually. The filing of a return, or a subsequent audit, results in a notice of assessment or reassessment being mailed to the company. If taxes, penalty, or interest, are unpaid when the bill is produced the corporation is given thirty days (from the mailing date of the bill) to pay the arrears. Failure to make payment within forty-five days initiates an automated collection cycle of two computer produced letters and a compliance worksheet which is subsequently used in the manual collection followup procedure to record notes of any action taken.

The Collection Section is divided into two groups: collection clerks who follow up accounts with balances outstanding up to \$4,999; and collection officers who deal with accounts in arrears exceeding \$5,000. Currently manual actions are not taken on accounts whose balances are less than \$500. This policy was prompted by a situation of high inventories of outstanding accounts together with constraints on the complement of Collection personnel.

There are currently 35,000 accounts whose individual arrears comprise less than \$500 for a total dollar value of \$3,666,789 and an additional 6,700 accounts whose individual arrears exceed \$500 for a total accounts receivable \$68,887,772 outstanding.



#### 7.2.1.2 Tactical Level Alternatives

##### Alternative 1

This alternative advocates the continuance of a selective manual followup collection programme determined by a flexible dollar ceiling (which is currently set at \$500). As an enhancement to the present procedures the computer system would be realigned to deal automatically with those collection accounts which would not be worked manually.

##### Advantages

- (i) manpower can be aligned to action and recover the larger debts most effectively;
- (ii) the method of selecting the dollar limits of accounts to be followed up manually is flexible;
- (iii) a reasonable followup time cycle can be maintained giving credibility to the enforcement provision of the Corporations Tax Act.

##### Disadvantages

- (i) all companies in arrears do not receive equal collection action;
- (ii) the volume of unpaid accounts will continue to increase with no effective end unless this process is augmented with a final procedure of cancellation of articles of incorporation;





- (iii) the chance of revenue recovery is diminished due to the long time span that it will take the smaller taxpayers to reach the \$500 limit;
- (iv) because of the large number of accounts in arrears other sections such as Liens and Accounts are inconvenienced.

#### Alternative 11

This alternative proposes increasing the pecuniary penalty for late payment of taxes and interest rates for deficient instalments and final payment of taxes. The interest rates would be set to equal or exceed the current bank rates. The provisions for late filing penalties would be amended to set a minimum of at least \$25 and a maximum of \$2,000.

#### Advantages

- (i) debtors repay debts with the highest carrying charges first. If Legislation or Regulations make it most expensive to leave taxes unpaid corporations would be encouraged to make more timely payment;
- (ii) decreased manpower requirements to administer the collection function, due to reduced volumes of collection accounts and lower receivables.

#### Disadvantages

- (i) instituting market dependent interest rates would tend to further complicate interest calculation procedures;
- (ii) the imposition of market dependent rates of interest might not be equitable to both large and small accounts;



- (iii) there might be little impact on reducing the smaller receivables, which comprise the larger number of accounts in arrears; the measure would be more effective on medium sized corporations.

#### Alternative 111

This alternative advocates accelerating the cancellation proceedings against companies in arrears as a followup procedure to collection actions. This alternative will require additional letters to be sent to delinquent companies which have not responded to the normal initial collection cycle activities.

#### Advantages

- (i) by advising a delinquent company that it stands to lose its "charter", the Branch would be taking a more positive action than the duplication of collection letters issued 12 months earlier;
- (ii) corporations would be forced into contacting the Branch to resolve the payment of overdue taxes;
- (iii) the number of small accounts in arrears would be reduced by forcing the corporations to either pay the debt or being put into a write-off category by virtue of the cancellation of their Letter Patent;
- (iv) a visible deterrent is provided by having the corporate name published in the Ontario Gazette.



### Disadvantages

- (i) a possible increase in the Tax Roll workload due to more revivals and reinstatements being requested;
- (ii) an increase in the number of cancellations will result, and will require the co-operation of the Ministry of Consumer and Commercial Relations and Ministry of Government Services to revise the present limits on the number of companies that can be recommended for cancellation;
- (iii) faster cancellation action may have an adverse effect on the Branch's public image.

### Alternative 1V

This alternative examines the co-ordination of all Revenue Division's collection efforts through one central collection agency.

### Advantages

- (i) the number of accounts under collection action could be distributed over a broader manpower base;
- (ii) collection activity could be undertaken in closer proximity to the taxpayer through district offices;
- (iii) collection action under several Tax Acts could be co-ordinated;
- (iv) offset of credits to any tax arrears could be identified more readily;



- (v) information required for collection actions would be more readily accessible;
- (vi) communications efforts between Branches would be reduced.

#### Disadvantages

- (i) retraining of Collection Officers would be required to understand the individual complexities of different taxing statutes;
- (ii) policy decisions and legislative changes as they apply to a particular tax act might become less flexible.

#### Alternative V

This alternative would require, through legislation, that all corporate entities operating in Ontario post a surety bond to guarantee payment of taxes.

#### Advantages

- (i) payment of taxes will be guaranteed before they become due;
- (ii) only companies which are more financially viable will be able to incorporate.

#### Disadvantages

- (i) additional manpower will be required to administer the receipt and renewal of the bonds;
- (ii) a formula will be required to determine the amount of surety required for individual corporations;





- (iii) surety requirements might impose a handicap on small taxpayers and would not be in accordance with the Government's policy of deregulation;
- (iv) start up problems to bring the existing tax roll of over 200,000 active corporations under bond would be complex.

#### Alternative VI

This alternative advocates the establishment of a policy of applying any payments received to the oldest year(s) arrears regardless of the year to which the taxpayer directs the payment be made. This also would encompass reallocation of instalment payments to arrears as part of this alternative. This would have the effect of reducing the assessed debts but would put the taxpayer in a deficiency for the instalments when the current year(s) is (are) assessed.

#### Advantages

- (i) the number of accounts in arrears would decrease since collection activity will be aimed at more current fiscal years;
- (ii) the accounting activity on individual accounts will be reduced as the number of years requiring interest calculations at billing time will be reduced.

#### Disadvantages

- (i) applying funds to other than the year specified by the taxpayer may result in more taxpayers' enquiries and complaints.



## Tactical Level Recommendations

It is recommended:

- (i) that the Branch adopt a policy of applying payments to the earliest year assessed regardless of the taxpayers' direction and of redirecting previously paid instalment payments to satisfy arrears;
- (ii) that the computer system be realigned to complement the selective manual followup procedures by producing outputs accordingly and providing automated followup for those accounts falling outside the manual followup system;
- (iii) that the cancellation programme for accounts in arrears be accelerated.

In the longer term, it is recommended:

- (i) that the establishment of a common collection agency for the Revenue Division be pursued;
- (ii) that penalties and interest be increased for failure to pay the taxes as required by the Corporations Tax Act.

In addition to the preceding tactical alternatives the following computer system and operational level alternatives are considered.



### 7.2.1.3 Implementation Level Alternatives

#### Alternative I

The computer system outputs should be aligned with the manual selective followup procedures.

#### Advantages

- (i) this alternative would have the effect of reducing useless collection worksheets in that only worksheets for accounts to be worked manually would be produced;
- (ii) management would be able to control the selection parameters for the accounts to be manually followed up, giving flexibility to the Collection function in meeting peaks and valleys in the work cycle;
- (iii) additional computer letters would be produced by the system to followup on accounts which could not be worked manually.

#### Disadvantages

- (i) all accounts would not receive the same attention;
- (ii) chance of revenue recovery is decreased since some accounts would not be followed up;
- (iii) volume of small accounts in arrears would increase.



## Alternative II

This alternative proposes automating the manual followup process by including an on-line "scratch pad" which can be accessed and updated through the CRT terminals.

### Proposed Procedure

The collection clerks upon receipt of a Compliance Worksheet will make initial contact with the taxpayer. Depending upon the information obtained the collection clerk will determine an appropriate date for followup action. This date will be entered on-line against the name and account number of the corporation together with indication of the followup results expected. Included in this alternative would be the facility to update collection codes on the data base file via the on-line system. Daily, the system will give notification of the corporations to be followed up.

### Advantages

- (i) manual effort in determining the daily workload would be reduced;
- (ii) the individual collectors would be assisted in scheduling their manual followup actions;
- (iii) the system would provide management with information for control and scheduling purposes;
- (iv) paperwork is reduced by eliminating the amount of notes recorded on the Compliance Worksheets;
- (v) dependence on desk diaries is reduced.





### Disadvantages

- (i) the computer system may not be flexible enough to record all the required collection information which is now manually recorded on the Compliance Worksheet, resulting in collection information being maintained in two ways, electronic and hand written.

### Alternative III

This alternative advocates providing the Collection Section with access, through the on-line terminals, to other Revenue Division branches' electronic files and other Government information.

### Advantages

- (i) there would be a reduction in the time spent to obtain third party information, such as Personal Property Registration profiles and Drivers Licence details, in order to make faster decisions on an appropriate course of action;
- (ii) there would be a reduction in correspondence and resultant paper flows between Branches;
- (iii) sources of information would be more accurate.

### Disadvantages

- (i) breaches of security of information might result;
- (ii) the computer system would become more complex and the cost benefits might not be acceptable.



## Alternative IV

This alternative advocates daily updating of cash information and the results made immediately available to the Collection Section.

### Advantages

- (i) the information on the on-line terminals would be more current, resulting in lower inventories of Compliance Worksheets;
- (ii) repeated checking of account balances before taking collection action would be reduced.

### Disadvantages

- (i) there are no disadvantages to this alternative.

## Implementation Level Recommendations

It is recommended that:

- (i) the computer system be re-aligned to correspond with the selective manual followup procedures. This will involve eliminating useless worksheets and possibly increasing the number of automated letters for accounts not worked manually;
- (ii) an on-line "scratch pad" facility be implemented but limited to the extent that it does not hinder normal collection activities;
- (iii) daily updating of cash be effected.

In the longer term, it is recommended that the concept of providing increased access to information from other Branches be pursued.



## 7.2.2 Default Process

### 7.2.2.1 Current Procedure

The prime responsibility of the Default section is to ensure that every corporation on the Corporations Tax Branch tax roll files a return if the company has failed to file when the voluntary filing period expires.

If a return remains unfiled six months after the corporation's fiscal year end, a series of computer produced letters are mailed to the delinquent company. The automated cycle ends with the production of a Compliance Worksheet which is used by the Default staff to record notes indicating the manual actions taken.

Manual action ends in either the filing of the delinquent returns, removal of the corporation from the active tax roll, raising an arbitrary assessment, or prosecution in court of an officer of the corporation for failure to file the required return.

There are presently over 24,000 returns in default. This large inventory prohibits the current complement of 11 default clerks from manually actioning every company which has not filed its return by the statutory due date. Worksheets are produced currently for every account in default of filing returns but only those companies whose gross income is more than \$25,000 and who paid more than the minimum capital tax in the past two years are followed up manually.

### 7.2.2.2 Tactical Level Alternatives

#### Alternative I

This alternative proposes that the selective manual follow up procedures be continued, with revision made to the computer system so that processing is aligned to correspond to this policy. This would entail the elimination of some compliance worksheets and an automated followup for those accounts which are not followed up manually.



### Advantages

- (i) manpower can be aligned to action those returns which would appear to be most productive;
- (ii) the method of selecting companies for manual action remains flexible;
- (iii) followup of selected delinquent accounts can be more easily maintained, giving credibility to the Branch's compliance operations.

### Disadvantages

- (i) all companies in default do not receive the same attention;
- (ii) the volume of small taxpayers in default is not directly addressed;
- (iii) the chance of revenue recovery might be diminished for those accounts not manually followed up.

### Alternative II

This alternative proposes that the late filing penalty be increased and set at a \$25 minimum, and a \$2,000 maximum, limit. The earliest default letter should advertise these penalties.

### Advantages

- (i) companies will have more incentive to file their return on time;
- (ii) smaller corporations, which are a large percentage of the accounts in default will be more motivated to file, due to the harsher penalties incurred.

### Disadvantages

- (i) small taxpayers would be more penalized relative to larger corporations;
- (ii) legislative changes are required to enact harsher penalty policies.





### Alternative III

This alternative advocates accelerating the cancellation programme for corporations which have made no compliance response to first year default actions. Second year default letters would be replaced firstly with a warning letter of cancellation and then the cancellation letter programme.

#### Advantages

- (i) accelerating the cancellation procedure is a more positive action than repetitive default letters;
- (ii) corporations would be put in the position of having to contact the Branch and file the return to resolve their delinquency;
- (iii) dormant companies would be struck off the tax roll earlier reducing the inventory of unfiled returns;
- (iv) a visible deterrent would be provided by having the company's name listed in the Ontario Gazette.

#### Disadvantages

- (i) a possible increase in the Tax Roll workload could result as more corporation revivals and reinstatements will be requested;
- (ii) the Branch will require the co-operation of the Ministry of Government Services and the Ministry of Consumer and Commercial Relations to accommodate increased cancellation activities;
- (iii) increased cancellation action might have an adverse effect on the Branch's public image.

### Alternative IV

This alternative advocates the co-ordination of all Revenue Division's default efforts through one centralized, divisional, compliance agency.



### Advantages

- (i) workload of accounts under default action can be distributed over a broader manpower base;
- (ii) default activity could be undertaken in closer proximity to the taxpayer through district office facilities;
- (iii) co-ordinated action under several Tax Acts could result in faster compliance;
- (iv) pertinent information from other Revenue Division branches would be more accessible and communications would be improved.

### Disadvantages

- (i) the retraining of compliance staff might be required for better understanding of the complexities of the different taxing statutes;
- (ii) policy decisions and legislative changes may become less flexible at the individual branch level.

### Alternative V

This alternative would require, through legislation, that companies operating in Ontario post a performance bond to guarantee filing of returns and payment of taxes.

### Advantages

- (i) only companies which are financially viable would be able to incorporate;
- (ii) arbitrary assessments in lieu of proper returns would become more effective in that payment can be enforced against the bond.

### Disadvantages

- (i) additional manpower would be required to administer receipt and renewal of the bonds;
- (ii) there would be complexities in determining the amount of surety required;



- (iii) a hardship would be imposed on small taxpayers;
- (iv) the bond requirement is not in accordance with the government's policy of deregulation;
- (v) the start up problems of bringing the existing tax roll under bond would be very complicated.

#### Alternative VI

This alternative proposes increased use of the designated assessment provision to allow assessments to be raised against a corporation when they have not filed a return.

#### Advantages

- (i) the mailing of an arbitrary Notice of Assessment would be a positive and visible action taken against a reluctant taxpayer;
- (ii) an assessment increases the taxpayer's responsibility to comply.

#### Disadvantages

- (i) issuance of an arbitrary Notice of Assessment might be ineffective as there is little current information on a corporation's assets or income against which compliance action could be enforced;
- (ii) it might be difficult to establish an amount payable;
- (iii) the inventory of difficult collection accounts would be increased;
- (iv) a taxpayer completed return would still be required to resolve the default situation.



## Tactical Level Recommendations

It is recommended that:-

- (i) the penalties for late filing be increased;
- (ii) that selective manual followup be continued and be made flexible to accommodate the peaks and valleys in the cyclical work load;
- (iii) that a policy be established to use more arbitrary assessments for some corporations;
- (iv) that the possibility of establishing a central compliance agency for the Revenue Division be pursued in the longer term.

### 7.2.2.3 Implementation Level Alternatives

In addition to the preceding tactical level alternatives, there are computer system and operational level alternatives which are considered in the following section.

#### Alternative I

This alternative proposes the alignment of computer produced outputs to the policy of selective manual followup. The computer system would be sufficiently flexible that the production of compliance worksheets could be produced based on the workloads in the Default unit.

#### Advantages

- (i) this alternative would have the effect of eliminating useless default worksheets: only worksheets for those accounts to be followed up manually would be produced;
- (ii) the system would be flexible, allowing the allotted manpower to meet the high and low cycles in monthly workloads.

#### Disadvantages

- (i) all defaults would not be given the same amount of attention.





## Alternative II

This alternative proposes use of the on-line system to aid manual followup on deferred default actions; the computer system would provide an electronic "scratch pad" to record and direct daily followup actions by means of the CRT terminals.

### Advantages

- (i) manual effort in determining the daily workload would be reduced;
- (ii) the individual default clerks would be assisted in scheduling their manual followups;
- (iii) management could be provided with additional information to control and schedule workloads;
- (iv) paperwork would be reduced by eliminating the requirement to enter notes on the compliance worksheets;
- (v) dependence on desk diaries would be reduced.

### Disadvantages

- (i) the system would be limited in its ability to record all the information now manually entered on the compliance worksheets;
- (ii) a dual system of recording default information might have to be maintained.

## Alternative III

This alternative considers the use of the on-line terminals to access the electronic data stored by other branches of the Ministry and other Government agencies.

### Advantages

- (i) there would be a reduction in time spent to obtain third party information, resulting in faster decision and compliance actions;
- (ii) correspondence and paper flows would be reduced;
- (iii) sources of information would be more accurate.



### Disadvantages

- (i) disclosure of confidential information could result from the increased risk of information being accessed by unauthorized persons;
- (ii) the system might be expensive to implement relative to the benefits gained, owing to the complexity of the computer file linkages.

### Alternative IV

This alternative advocates that the Tax Return Centre update default return slots on-line in order to reflect the receipt of the default return. The on-line system would then provide notification of the receipt of the return to the Default area.

### Advantages

- (i) the manual listing of late file returns presently used to extract automated default letters just prior to mailing would be eliminated;
- (ii) more current information would result in a decrease in the number of default accounts being worked.

### Disadvantages

There is no disadvantages to this alternative.

### Implementation Level Recommendations

It is recommended that:-

- (i) the Branch's computer system be realigned so that Compliance Worksheets are produced for only those accounts which are to be followed up manually;
- (ii) an electronic "scratch-pad" be developed to assist in the manual followup system;
- (iii) notification of the receipt of default returns in the Tax Return Centre should be effected through the on-line system.

In the longer term it is recommended that a system be pursued whereby the Corporations Tax Branch will be able to access select information stored electronically by other Branches and Ministries.



### 7.2.3 Audit Process

This section discusses alternate methods of processing non-discretionary, extended and field audits.

#### 7.2.3.1 Non-discretionary Audits

Non-discretionary audits result from three sources: federal notices of reassessments, loss carry back returns, and amended returns. The function of non-discretionary audit is to review the adjustments and to prepare computer input for resulting notices of reassessment.

The following examines the current procedures and discusses alternative methods of processing. Due to the nature of the source documents initiating the audit review, alternatives for processing loss carry back and amended returns are considered together, while alternatives for federal notices of reassessment are discussed separately.

#### Current Procedures

Federal notices of reassessment, loss carry back returns, and amended returns are processed by the Input/Output area and set-up in an inventory in the computer system. Files are selected for audit by means of a control card initiated by the Audit area. The adjusted documents, audit worksheets and hard copy files are matched in the filing room and sent to the Audit area.

The auditors review each adjustment for accuracy and conduct a cursory investigation of other taxation years in the file. On completion of the review the auditors complete the audit worksheet indicating the action taken and resulting tax changes and prepare a statement of adjustments, if necessary. This file is returned to the filing room and the audit worksheet is sent to the the Input/Output area for computer processing.



## Loss Carry Back And Amended Returns Alternatives

### Alternative 1

This alternative advocates maintaining the present procedure, which is to review every adjustment with reference to the hard copy file.

#### Advantages

- (i) the applicability of the adjustment and the resulting billing accuracy are verified;
- (ii) cursory audit coverage of the taxroll results;
- (iii) tax recovery results from investigation of taxation years other than the adjustment year(s).

#### Disadvantages

- (i) audit manpower is diverted from extended audits to accomodate fluctuating volumes of adjustments;
- (ii) future manpower requirements are uncertain since the volumes are controlled by external factors;
- (iii) there is potential for time delays in the process due to inventory accumulation;
- (iv) the hard copy file is required to complete the process;
- (v) the audit process does not easily accomodate one-year changes - the process is designed for multiple-year review;
- (vi) completion of the audit worksheet is required;
- (vii) preparation of a statement of adjustments is required.





## Alternative 11

This alternative proposes a review of the adjustment document only, with the aid of a terminal for references to the data base file. The adjustment document would be processed by the Input/Output area and set-up as a new segment on the data-base; the original return information would not be overwritten. Upon computer acceptance, the document would be sent to the Audit area for review. The review would be conducted based only on the adjustment document and the terminal information. The auditor would complete a "one-year" computer input document to record the required statistical information.

### Advantages

- (i) the manpower requirements would be reduced as only the adjustment is reviewed, not the whole file;
- (ii) the time-frame of the non-discretionary audit process would be reduced;
- (iii) the hard copy file would only be required in exceptional cases;
- (iv) there is less chance of inventory accumulation as the processing time is reduced;
- (v) a more simple, "one year" input document would be completed;
- (vi) there would be a reduction in the preparation of statements of adjustments.



### Disadvantages

- (i) the process is dependent on the taxpayer's estimate since the auditor would only have access to the tax figures for the original return;
- (ii) there would be a reduction in the immediate tax recovery presently obtained from reviewing the total file;
- (iii) there is still a diversion of manpower from extended audits;
- (iv) manpower requirements are still determined by external factors;
- (v) there is a loss of the cursory audit coverage of the taxroll.

### Alternative 111

This alternative examines the concept of automated billing based on the taxpayers' revised estimates.

The processing would be the same as for the original return processing and billing. The adjustment document would not however overwrite the original return information of the data base.



### Advantages

- (i) there would be no direct audit manpower requirements;
- (ii) the audit area could concentrate on extended audits;
- (iii) there would be a reduction in the billing time for the adjustments;
- (iv) the hard copy files would not be required;
- (v) no audit worksheet would be required (or manpower required for the resultant paper flow e.g. filing room);
- (vi) statements of adjustments would not be required.

### Disadvantages

- (i) the process would be dependent on the accuracy of the taxpayers' estimates;
- (ii) there would be no cursory audit coverage of these files;
- (iii) there would be no immediate tax recovery associated with review of the total file;
- (iv) there would be less comprehensive statistical information of an audit nature for the adjustments.



## Alternative 1V

This alternative reviews automated billing based on taxpayers' revised estimates, with however a segregation of adjustment documents based on the size of the tax changes. Those files segregated for review would be verified by the audit area for accuracy.

### Advantages

- (i) the audit area would concentrate only on the large adjustments and extended audits;
- (ii) there would be reduced audit manpower requirements;
- (iii) the time to bill the adjustments would be reduced;
- (iv) access to hard copy files would be by exception;
- (v) there would be a positive affect on the billing accuracy in proportion to the volumes reviewed;
- (vi) there would be a reduction in statements of adjustments and audit worksheet processing - exception cases only;
- (vii) large refunds would be reviewed for accuracy.

### Disadvantages

- (i) the process would be dependent on the accuracy of the taxpayers' estimates;
- (ii) there is limited cursory audit coverage of the taxroll.





### Recommendation

It is recommended that an automated billing procedure be adopted based on the taxpayers' revised estimates, and that large tax changes be segregated for review in the Audit area. This procedure would allow more emphasis to be placed on extended auditing while maintaining an audit review of large tax changes.



## Federal Notices of Reassessment Alternatives

### Alternative 1

This alternative advocates a review of the federal notice of reassessment with reference to the hard copy file (present procedure).

#### Advantages

- (i) the accuracy of the adjustment and the resulting billing accuracy are verified;
- (ii) there is a cursory audit coverage of the taxroll;
- (iii) tax recovery results from investigation of taxation years other than the adjustment year(s).

#### Disadvantages

- (i) audit manpower is diverted from extended audits to accommodate fluctuating volumes;
- (ii) future manpower requirements are uncertain as the volumes are controlled by Revenue Canada production;
- (iii) there is potential for time delays in the process due to inventory accumulation;
- (iv) the hard copy file is required.

### Alternative 11

This alternative reviews the possibility of Revenue Canada issuing reassessments for Ontario tax based on the federal adjustments.



#### Advantages

- (i) requires very little Corporations Tax Branch manual involvement.

#### Disadvantages

- (i) reduces Ontario's scope in taxing authority;
- (ii) federal authorities would likely be reluctant;
- (iii) would still require receipt of reassessment information to update Ontario files.

#### Alternative 111

This alternative proposes a front-end manual segregation process; whereby federal notices of reassessment would be segregated based on legislative differences.

Those notices that have no legislative differences would undergo an automated billing process. Notices with legislative differences would be passed to the Audit area along with the hard copy file for an audit review as per the present system.

#### Advantages

- (i) reduced manpower requirements as federal notices with no legislative differences would be processed automatically (more audit resources could be diverted to extended audits);



- (ii) reduced billing time for "no difference" notices;
- (iii) reduced access to hard copy files;
- (iv) reduced preparation of statement of adjustments;
- (v) some immediate dollar recovery from review of the total file for those federal notices with legislative differences;
- (vi) some 'cursory' audit coverage;
- (vii) positive effect of billing accuracy as an auditor would be doing the segregation and auditors would review notices with legislative differences.

#### Disadvantages

- (i) segregation volumes are dependent on external factors (i.e. legislation and amount of information provided by the federal government);
- (ii) audit staff is required for the segregation procedure;
- (iii) reduction in immediate recovery since not all files would be reviewed;
- (iv) reduction in 'cursory' audit coverage;
- (v) less comprehensive statistical information of an audit nature for those notices that are processed automatically;
- (vi) more than one stream of processing.





## Alternative 1V

This alternative advocates a front-end automated segregation process. The process would be similar to alternative 111 however the segregation would be done by means of the federal reassessment tape received by the Corporations Tax Branch.

### Advantages

Advantages would be the same as Alternative 111 plus:

- (i) audit staff would not be required for segregation

### Disadvantages

Disadvantages would be the same as Alternative 111 plus:

- (i) legislative differences may not be distinguishable from information presently supplied on the federal reassessment tape (reason for change codes on the reassessment tape may not be explanatory enough);
- (ii) reassessments would be reliant on the accuracy of the federal reassessment tape;
- (iii) the reassessment tape if prepared on a quarterly basis presents potential for time delays and inventory accumulations;
- (iv) receipt of federal notices and the federal reassessment tape may not be co-ordinated timewise thus causing matching problems for manual review of those notices with legislative differences.



### Recommendation

It is recommended that a front-end segregation of federal notices of reassessment be adopted. In the short-term, a manual segregation should be implemented to separate federal notices with legislative differences from those with no differences. In the longer term the option of using the federal reassessment tape for this process should be pursued. Reassessment notices should be produced as a result of federal notice input for "no difference" situations.



#### 7.2.3.2 Extended And Field Audit

Selection of files for extended and field audit is based on the audit selection scoring system and programmes initiated by Audit management. The following sections outline the current audit procedures and consider alternative approaches to the processes involved.

##### 7.2.3.2.1 Current Procedure

A computer inventory of accounts with potential for extended desk audit is established through the screening procedures of the returns processing function. Files are selected from this inventory by means of control card in the update system and audit worksheets are produced. These worksheets and associated hard copy files are placed in inventory in the Audit Area. As required, files are selected by the audit supervisors and reviewed for audit potential.

Those files without audit potential are returned to the Filing Room and the audit worksheets are sent to the I/O Section where they are cancelled by inputting transactions to the computer system update. Those files with audit potential are given to the extended audit section along with an audit assignment form, which specifies the reason for selection. The auditor conducts the file review, corresponding with the taxpayer for extended information if necessary. Upon termination of the audit, the audit worksheet is completed indicating the actions taken, reasons for



change, taxation dollar changes, the time spent by the auditor, and the degree of audit performed. A statement of adjustments is prepared, indicating to the taxpayer the changes made. The audit assignment form is also completed to reflect the results of the audit.

The file, audit worksheet, and audit assignment form are passed to the audit group clerk who gathers selected statistics for MBR purposes.

The file is returned to the Filing Room and the audit worksheet is sent to the I/O Section for computer processing. As a by-product of computer acceptance of the audit worksheet an audit statistics record is created for each fiscal period audited. From this statistical data monthly reports are produced showing audit recovery and auditor performance.

The procedures for field audits differ from extended audits only in that the selection is not restricted to return scoring results, the volume of audits performed is less, and audits are conducted outside of the Corporations Tax Branch.

#### 7.2.3.2.2 Tactical Approach

At a tactical level, the extended audit function would most benefit from increasing the amount of direct auditor time spent on extended auditing; and decreasing the amount of clerical effort involved in cancelling audit worksheets, recording audit results for the computer system, and gathering and presenting audit





management statistics. To achieve these ends the following implementation level alternatives are considered.

#### 7.2.3.2.3 Implementation Level Alternatives

To address the approach of increasing the amount of direct audit time the following alternatives have been considered.

##### Alternatives 1

This alternative considers the effects of automating the audit selection scoring procedure, presently done manually in the Returns Processing screening function. Automated audit selection scoring could be done for a selected group of accounts (i.e. those paying \$100 or less in tax with gross revenue of less than \$25,000) or the audit selection criteria could be altered for all corporations so that the entire scoring system is automated.

##### Advantages

The following benefits result from automating the audit selection procedures:

- (i) reallocation of audit staff from screening activities to the extended audit function. For partial automation it is estimated that two auditors could be reallocated. If total automation of the scoring function was implemented then seven auditors could be re-assigned;
- (ii) reduction of further auditor secondments at peak Return processing times.



### Disadvantages

The following disadvantages would result:

- (i) reduction in the scope of variables on which to base audit selection criteria;
- (ii) the reallocation of auditor time may not affect the extended audit function proportionately because of the higher level of experience required for extended audits.

### Alternative 11

This alternative examines the effects on the extended audit function of automating the processing of non-discretionary audits (i. e. amended returns, loss-carry-back returns, and federal notices.)

### Advantages

The advantages from this approach include:

- (i) reallocation of those audit resources to extended audits which are presently employed in auditing files associated with amended returns and loss carry back situations. Amended returns presently number approximately 4,000 per year and loss carry back situations are marginally higher at 4,500 per year;
- (ii) increased audit coverage and tax recovery as a result of the higher extended audit activity.



### Disadvantages

The disadvantages associated with this approach are:

- (i) a decrease in the immediate tax recovery associated with the cursory auditing of complete files when an amended or loss return is received;
- (ii) the experience of the present audit staff employed to perform non-discretionary audits may not be sufficient, without further training, to make the reallocation of resources to extended audits effective;
- (iii) the legislative differences involved with the federal reassessments may minimize the amount of automation possible in this area.

### Alternative 111

This alternative promotes the establishment of a Branch-wide information centre to handle taxpayer inquiries as to tax roll, accounting and audit activities.

### Advantages

The following advantages would result:

- (i) a decrease in the amount of interruption in the Audit area caused by telephone inquiries;
- (ii) a reduction in the amount of auditor time spent in preparing responses to taxpayer inquiries;



- (iii) segregation of inquiries will mean auditors handle only those which require auditor expertise;
- (iv) less fragmented time reporting by audit staff.

#### Disadvantages

The disadvantages of the information centre concept as it applies to the Audit area include:

- (i) some taxpayer inquiries would still require personal attention by the audit staff;
- (ii) reduction in personalized service to the taxpayer by forcing inquiries through a front-line group.





The following alternatives address the clerical effort involved in the audit process.

#### Alternative IV

This alternative involves using the on-line system to cancel audit worksheets which have no potential for extended or field audit.

#### Advantages

The advantages of this approach centre more around the support functions than the audit function:

- (i) elimination of the transcription, batching, and keying efforts associated with preparing input transactions to the batch update;
- (ii) the audit cancellation will be reflected on the computer system more quickly;
- (iii) allows the audit selection and audit cancellation process to be more independent of the support areas.

#### Disadvantages

There appear to be no disadvantages to this process.

#### Alternative V

This alternative considers consolidating both the clerical completion of audit working papers and the recording of the audit results required by the computer system. This would involve the redesign or elimination of some of the present documents used (i.e. the audit worksheet, audit assignment form).



### Advantages

The advantages of this measure include:

- (i) elimination of redundant recording effort by the auditors and group clerks.(e.g. reason for selection, reasons for change, time spent by auditors, and dollar changes by reason are recorded on both the audit worksheet and the audit assignment form);
- (ii) eliminates the transcription of audit results (e.g. time spent by auditors, dollar changes) from one document to another.

### Disadvantages

The disadvantages of this approach are:

- (i) a single document may become too complex to record all required information;
- (ii) reduction in recording documents may limit the presentation of recorded information.

### Alternative VI

This alternative considers the use of the on-line terminal system by the audit clerks to enter audit results to the computer system.



### Advantages

The advantages of this alternative centre around reductions in the efforts to prepare the audit worksheet for computer acceptance and the timeliness of correcting rejected worksheets:

- (i) the completion of the audit worksheet could possibly be eliminated (i.e. results could be entered from audit working papers);
- (ii) tax calculations could be done on-line and confirmed by the group clerk at the terminal;
- (iii) reject conditions could be corrected or followed up immediately by the group clerks.

### Disadvantages

The disadvantages of this alternative centre around the labour intensity of the data capture operation:

- (i) the relatively large amount of information required by the computer system to record audit results could be more efficiently keyed by an experienced data entry operator;
- (ii) the introduction of the data capture function to the audit area may be disruptive to the prime function of auditing.



### Alternative V11

This alternative proposes reliance on the automated audit statistics reporting system for a majority of the MBR reporting which relates to auditor performance.

#### Advantages

The advantages of this alternative include:

- (i) reduction in the amount of manual effort presently expended in gathering and manipulating statistics for MBR presentation;
- (ii) better use of the information currently stored and presented by the computer system.

#### Disadvantages

The disadvantages of relying on the computer produced statistics centre around the establishment of reporting time periods. These disadvantages can be overcome through enhanced design or alignment of MBR requirements.





#### 7.2.3.2.4 Recommendations

It is recommended that the amount of direct audit time spent on extended auditing be increased through:

- (i) automating the audit selection scoring procedure for those Corporations paying \$100 tax or less and having gross revenue of less than \$25,000;
- (ii) automating the reassessment procedure for amended and loss carry back returns, and partially automating the federal notice of reassessment process;
- (iii) the creation in the longer term of a Branch-wide information centre to answer taxpayer inquiries.

To decrease the amount of clerical effort associated with the audit process the following recommendations are proposed:

- (i) to establish an on-line system for cancelling worksheets that have little audit potential;
- (ii) to consolidate the audit worksheet and other working papers into a non-redundant reporting system;
- (iii) to rely on the automated reporting system for management statistical information.

In the longer term, use of the on-line system may be appropriate for entering audit results to the computer system, but at present it is recommended that this alternative be considered only for less labour intensive data capture functions.



#### 7.2.4 Liens Process

The Liens process has recently been the subject of several studies, all seeking to reduce or control the increasing workload in this section. The basic problem is that the liens clearance process requires that every transfer of property (where a corporation has been on title during the previous five years) be reviewed for potential claim of a lien. The liens process is therefore constantly subjected to external pressures, beyond their control, of incoming workload which must be processed within a given time frame. Many of the incoming transactions are routinely processed without a lien being claimed, but they constitute an increasing paperwork burden on the section.

The following paragraphs outline the current liens procedures and consider alternative approaches to the processes involved.

##### 7.2.4.1 Current Procedure

Requests for a lien clearance are submitted by letter, telephone, or in person to the Liens section.

Approximately 200,000 such requests are received in a year and the volume is increasing. The majority of lien clearances given are granted as a service to the public assuring that there is no prior claim by the Province of Ontario to the property title.

The 400-500 letters received daily are opened by the mail room, stamped with the date received and delivered throughout the day to Liens. The name of the corporation is underlined and the date to which clearance is requested. The corporations tax account number is also added to the document. The letters are then sorted and distribution according to category for processing.



Telephone calls number approximately 350 per day but peak at mid month and month-end, popular times for closing property transactions. Most of the calls demand immediate service since the closing date is imminent. Because a written clearance is also required, most telephone calls are a duplication of work for the Liens section.

Lien clearance requests in person are so infrequent- 8 to 10 per day - that it constitutes no major problem, but is yet another component part of the customized service offered.

The types of transactions coming into Liens are concerned with transfers of property, mortgages, debentures, and transfer of shares. The vast majority of these requests are dealt with by reference to the CRT information retrieval terminals, supplemented by special purpose card files for "trustee" corporations; reference to the hard copy files is made only where necessary. In the case of re-sales, a liens clearance is repeatedly requested by each subsequent purchaser for every registered owner over the past 5 years.

It is internal policy to grant lien clearances automatically to corporations that have gone off title prior to 1976 (currently) or where a sale is valued at less than \$300,000. Both of these guidelines are open to modification by the Liens supervisor if deemed worthwhile for claiming a lien, but are intended to reduce the amount of investigation workload.



In approximately 60% of requests for lien clearance, the requesting document itself is stamped, photocopied, and acts as a turnaround document; only an envelope needs to be typed for these letters. The balance of requests require a form letter or a custom response. A lien is claimed against only 1% of the clearance requests received in the Branch, and prima facie generates a gross revenue of \$14 million. A study in late 1978 suggests however that the net revenue recovery might be closer to \$2 million though it acknowledges that more arrears would become collection accounts without Liens intervention.

#### 7.2.4.2. Tactical Level Alternatives

The tactical level alternatives outlined below acknowledge that the primary purpose of the Liens process is one of Revenue Control and not Revenue Generation. Its objective therefore is to ensure compliance, where possible, with the filing requirements of the Branch and the collection of taxes.

##### Alternative I

This alternative examines the implications of maintaining the Liens function in its current role and allocating resources as the workload increases. It is postulated that to attempt to maintain the current role of Liens without allocating further resources is to so reduce the effectiveness of the Lien programme that the retention of the statutory lien is questionable.

##### Advantages

The following advantages centre around the current service to the taxpayer and the Branch, and the morale of the Liens staff:

- (i) the service currently offered the taxpayer for lien clearance requests would be maintained;





- (ii) the Branch would benefit in cases of default, arrears, sales of last property, and assets not recorded on financial statements;
- (iii) the allocation of additional resources would reduce the necessity for continuous overtime by Liens staff;
- (iv) no amendments to legislation would be required.

#### Disadvantages

The following disadvantages are concerned with the government policy of constraint, the return on investment in additional resources and the increasing drain on other areas of the Branch:

- (i) the allocation of additional resources (in proportion to workload growth over the past year) would require over 2 complement positions a year;
- (ii) additional complement contravenes the policy of constraint;
- (iii) the number of liens claimed would drop as a percentage of lien clearance requests or would remain static at best so that most of the additional work performed would be purely perfunctory;
- (iv) there would be additional demand on auditor time for assessing current liability;
- (v) there would be additional refunds for those lien assessments which were too high;
- (vi) there would be additional mail room, filing, typing, and data entry requirements.

#### Alternative II

This alternative examines the possibility of restricting the claiming of a lien to only those cases where default or arrears of tax exist; the Liens provision would be retained solely as a compliance tool to be administered by Collection/Default:



### Advantages

The advantages of this selective approach centre around the reduction in the labour intensive activities of the current Liens process through attaching a lien only to those properties whose corporation owners are in default or collection:

- (i) this approach obviates the requirement for lawyers to request any lien clearance;
- (ii) a lien would be claimed only when the company is in default of filing or making payments, thereby reducing the workload to 11,500 actions (based on 79/80 estimates);
- (iii) the lien provision would be clearly associated with the compliance function.

### Disadvantages

The disadvantages of this proposal concentrate on the impracticality of this approach at the current time, and on the less comprehensive coverage and service offered under such a scheme whenever it does become practical:

- (i) access to property information of companies is not currently available to the Collection and Default sections;
- (ii) the transfer of the last property owned by a corporation would not be readily apparent unless the land registration system had a cross reference facility by ownership.



### Alternative III

This approach examines the possibility of publishing a list of companies in default at the land registry office and transferring the onus to the purchaser of the property to check for any lien being claimed.

#### Advantages

The advantages of this scheme revolve around the proactive approach of allowing lawyers check the potential claim of a lien by the Province without having to refer to the Ministry of Revenue:

- (i) eliminates the mechanical lien clearance requests currently constituting over 90% of the incoming lien correspondence;
- (ii) eliminates all support function requirements of the Liens section, including mailing, typing, etc.;
- (iii) allows lawyers to check for a potential lien at the time of their visit to the land registry office, with no delays.

#### Disadvantages

These are mostly concerned with the effectiveness and timeliness of such a proposal:

- (i) the lists of companies in default/collection would have to be constantly updated and distributed throughout the Province;
- (ii) the lien would tend to be attached to the company rather than the property;



- (iii) the proposal would have more effect for collection situations than default since the lawyer might proceed with the purchase if no debt is owed, even though the return is in default;
- (iv) if the transfer of property were to proceed, the claim of a lien would be useless after the fact, and proof of the Province's potential claim at the time of transfer of ownership might prove difficult.

#### Alternative IV

This section examines the approach of eliminating the lien statute from the legislation of Ontario in imitation of the Federal policy and legislation.

#### Advantages

The benefits of this approach are mostly concerned with reduction in workload, and compliance with the policy of deregulation:

- (i) the current Liens complement of 13 would be available for strengthening other Revenue Control functions;
- (ii) more manual attention could be applied to the collection of the current \$70 million account receivables position:
- (iii) sale of property, etc, would not be delayed in anyway by the lien clearance procedures and potential complaints to Corporations Tax branch would be reduced;





- (iv) the elimination of the highly clerical intensive activity of the Liens section would be seen as a positive move towards the Government of Ontario's goal of deregulation.

#### Disadvantages

All the disadvantages associated with the elimination of the lien statute concern the potential reduction in effectiveness of compliance action by Corporations Tax branch:

- (i) those corporations in default or collections action which wish to sell property could not be made to comply through the denial of a lien clearance;
- (ii) some corporations selling the last of their property might go out of business prior to paying the full assessment under the Corporations Tax Act;
- (iii) so called "beneficial" owners might avoid detection when a transfer of property occurs.

#### Recommendation

On the basis that the workload in the Liens section will increase inexorably in the future and cannot be offset without the infusion of additional complement, and on the basis that the total net additional revenue directly attributable to the Lien section's actions is probably less than 0.5% of total Corporations Tax branch revenue, it is recommended that the lien statute of the Corporations Tax Act be discontinued in its current form.

While the lien function is being maintained in its current role some implementation level alternatives should be considered to alleviate redundant checking in the case of re-sales, and to reduce reference to the hard copy files.



#### 7.2.4.3 Implementation Level Alternatives

The following alternatives are no more than a re-iteration of proposals made in the past to improve the operation of the Liens function, and not yet implemented for various reasons. Because of the infinite subtlety of degree of implementation of some alternatives (e.g. priority claim in the case of a mortgage), only major alternatives are listed here.

##### Alternative I

It has been recommended that the lien clearance document be registered in the Ministry of Consumer and Commercial Relations in the manner of a deed. This alternative examines briefly the consequences of such a proposal:

##### Advantages

- (i) requests for lien clearances may not be so numerous for re-sale properties transferred within the time limitation of the lien statute.

##### Disadvantages

- (i) every lien clearance would have to be registered in the land registry offices;
- (ii) MCCR might not be agreeable to administer such a proposal;
- (iii) it contravenes the policy of constraint and deregulation in that more complement would be required by MCCR, more paper work would be required of taxpayers, and the liens operation would be relieved of only the re-sale requests for lien clearances.



## Alternative II

This alternative suggests the use of a standard lien clearance request form to reduce misunderstanding by lawyers of the information required, and to accelerate processing:

### Advantages

- (i) the incidence of omitted information required to process the request for lien clearance should reduce (e.g. omission of dates, sale or mortgage, etc.,);
- (ii) easier turnaround of the document through Liens and the word processing centre should result.

### Disadvantages

- (i) the form might be complex to accomodate all situations;
- (ii) the addition of another standard form might be viewed as a contravention of deregulation policy, especially in such a visible area as Liens.

## Alternative III

This alternative suggests extending the Account data base of Corporations Tax branch to include extra data required by Liens.

### Advantages

- (i) effective dates of inactivity of inactive corporations, and old names would reduce Liens section's access requirement to the hard copy files;



- (ii) information would be available instantly via the on-line information retrieval system.

#### Disadvantages

- (i) there are no disadvantages to this alternative except that it could be several years or more before the proposal would be effective.

#### Alternative IV

This outlines an increased information bulletin programme to lawyers, re-inforcing the lien clearance requirements.

#### Advantages

- (i) the bulletin might reduce the incoming requests for lien clearances by detailing the data requirements, especially the effective dates of the Liens statute.

#### Disadvantages

- (i) it might not substantially reduce the number of lien clearance requests;
- (ii) it would incur an additional cost of production and mailing.





## Recommendation

While the Lien function is maintained in its current role, it is recommended that: the data base be extended to include additional dates and names to meet Liens requirements; a standardized form be provided for use by lawyers seeking a lien clearance; and a bulletin programme be undertaken to detail the actual data requirements of a lien clearance request.

It is emphasized, however, that these recommendations are merely stop-gap measures to delay a crushing workload which offers little return for investment and that they cannot therefore be endorsed as ultimate solutions.



## 7.2.5 Tax Roll Investigations Process

### 7.2.5.1 Current Procedure

The Corporations Tax Branch Investigations section's primary concern is to ensure the integrity of the master file by following up leads, through a variety of sources, of the jurisdictional taxability of corporations not registered with M.C.C.R.

The sources vary from contacts with the Federal Department of Consumer and Corporate Affairs to payments and Federal notices received for which no corresponding Corporations Tax account exists. Another procedure involves the follow up of "K" status accounts bi-annually for changes in status.

### 7.2.5.2 Tactical Level Alternatives

#### Alternative I

This alternative proposes to expand the analysis of federal and other files to verify completeness and accuracy of Corporations Tax tax roll. Files could include Revenue Canada tapes, Consumer and Corporate Affairs microfiche lists, and Dun & Bradstreet files.

#### Advantages

- (i) less labour intensive investigations;
- (ii) outside source verification of Ontario information.

#### Disadvantages

- (i) data processing costs could be expensive.

#### Recommendation

It is recommended at the tactical level that increased use be made of other jurisdictional data to help maintain integrity of Corporation Tax tax roll.



### 7.2.5.3 Implementation Level Alternatives

#### Alternative I

This alternative recommends establishing an index to match federal account numbers to the Corporations Tax master file in an on-line retrieval system.

#### Advantages

- (i) easier cross reference to C.T. files when dealing with federal documents (e.g. federal notice of re-assessment)

#### Disadvantages

- (i) not cost justified for investigations function alone.

#### Alternative II

This alternative suggests the implementation of an on-line updating system to process change input documents, (e.g. address, status, jurisdictions).

#### Advantages

- (i) more timely updating of computer files, resulting in more accurate mailings;
- (ii) reduction in transcription, keying, batching, confirmation of data;
- (iii) a reduction in time to complete the task.

#### Disadvantages

There are no disadvantages associated with this method of operation.



### Alternative III

This alternative examines an automatic "K" status followup.

#### Advantages

- (i) reduces manual followup effort;
- (ii) promotes accuracy and integrity of the tax roll;
- (iii) allows "K" status programme to continue (not feasible in manual effort).

#### Disadvantages

- (i) cost might not justify results.

### Alternative IV

This alternative proposes to eliminate "K" status followup.

#### Advantage

- (i) allows staff to concentrate on more effective tax roll investigations.

#### Disadvantages

- (i) some loss in revenue might occur;
- (ii) loss in enforcement image of controlling integrity of tax roll.

### Recommendations

On the basis of the foregoing discussions, it is recommended that:

- (i) Corporations Tax Branch establish a federal index to the data base, depending on justification in other functional areas;
- (ii) that on-line updating for Investigations be implemented;
- (iii) automatic "K" status programme produce letters on a recurring basis for enforcement visibility.









### 7.3 Appeals Alternatives

This section outlines possible improvements to the Objections and Appeals function.

#### 7.3.1 Appeals Process

The appeals function as it relates to Corporations Tax is to resolve taxpayer appeals or objections to assessments and reassessments levied under the Corporations Tax Act. Recently this function was separated from the Corporations Tax Branch and now exists as a distinct branch within the Revenue Division. However there remains a reliance on other functions of the Branch for exchanges of information and on the Corporations Tax computer system for recording and reporting Appeals activities.

The following sections outline current procedures and possible improvements.

##### 7.3.1.1 Current Procedure

The Appeals Branch receives and processes approximately 500 objections annually, which is a relatively small number compared to the total billing of corporations. During the resolution of the objection or appeal, the Appeals Branch will interface (according to a recent study on its relocation) with the Corporations Tax Branch in the following ways.

An objection file is set up when a new objection is received by the Appeals Branch. For inclusion in these files, returns are extracted from the main



Corporations Tax file. Since the Appeals Branch does not have access via a CRT terminal to information stored in the data base, the Filing Room acts as a source of auxiliary information. In order to maintain the current status of objection data on the computer system, transaction input is forwarded through the Input/Output section and centralized data entry operation for inclusion in the scheduled batch updates. Edit results, along with data base update results are in turn forwarded to the Appeals Branch. Summary statistics of Appeals activities, produced monthly in the Corporations Tax statistical run, are also forwarded.

When an objection is settled, information is passed to the Audit staff who have the responsibility of reassessing the affected taxation year. The Accounts section is notified by computer output of the objection accounts so that proper interest rates can be applied to the tax changes. The Appeals staff have the responsibility of preparing the statements of adjustment which accompany the reassessment notices. Apart from the aforementioned interfaces, the Appeals Branch presently requires word processing support and provides information on the status of objection proceedings to the Collection section via telephone.



#### 7.3.1.2 Tactical Approach

For the present, the appeals Branch is physically located so that exchanges of information and interaction with the computer system do not present significant problems. The low volume of objections also minimizes the consequences of the recent relocation.

To accomodate future relocation, and to reduce the dependency of the two branches on exchanges of information and on interaction with the shared computer system, it is felt that a policy of more autonomous data processing should be pursued for Appeals.

#### 7.3.1.3 Implementation Level Alternative

The following considers alternative methods of implementing a policy of more autonomous data processing for the Appeals function.

##### Alternative 1

This alternative proposes that the Appeals Branch have access through an on-line CRT terminal to Corporations Tax information, and would input objection transaction information to the data base using the CRT terminal.

##### Advantages

The advantages of this approach are:





- (i) the Appeals Branch would operate with minimal dependence on the Corporations Tax Branch for system interaction activities;
- (ii) the objection data would be recorded on the data base mostly for information purposes and would not affect the main accounting system;
- (iii) the computer files would reflect more timely objection data.

#### Disadvantages

Disadvantages of this approach centre around the cost of the on-line equipment:

- (i) the cost of a CRT terminal operating on an independent communication line would be approximately \$4,500 annually, plus operational expenses.

#### Alternative 11

This alternative proposes separation of the monthly reporting system from the Corporations Tax statistical run into an independent program.

#### Advantages

The advantages centre around autonomy of operation:

- (i) the appeals management reporting system would operate independently of the Corporations Tax system;
- (ii) the processing schedules of both Appeals and Corporations Tax would be more amenable to change.



### Disadvantages

The disadvantages of this approach are cost oriented:

- (i) the present objection reports are produced as part of the Corporations Tax scanning of the data base;
- (ii) to economically provide an independent reporting system, a secondary index would have to be established to objection data, or statistics would have to be gathered as a by-product of file updating.

### Alternative 111

This alternative proposes that the main Corporations Tax "hardcopy" files be kept intact and that a copy of the required information be provided to the Appeals Branch.

### Advantages

The advantages of this alternative are:

- (i) information relating to all corporations will be retained in the Corporations Tax Branch at all times.

### Disadvantages

The disadvantages centre around the task of reproducing file documents:

- (i) there is no easy method of reproducing file contents for the Appeals Branch as long as paper files are maintained.



#### 7.3.1.4 Recommendation

It is recommended that the Appeals Branch be provided with the capability to access and update objections data on-line. This will reduce the dependence on the Input/Output section and centralized Data Entry for computer system interaction.

It is also recommended that the monthly reporting system be separated from the Corporations Tax system as part of an overall goal of eliminating the monthly statistical run as the primary means of providing management information.

Presenting the Appeals Branch with the only copy of corporation file contents will be discontinued when the Filing Room operation is onverted to a micro-recording method of file storage.









## 7.4 Feedback Alternatives

The purpose of this section is to outline possible courses of action for the feedback function of Financial Data Analysis.

### 7.4.1 Financial Data Analysis Process

#### 7.4.1.1 Current Procedure

The function of the Extended Financial Data Capture unit (hereafter referred to as the F.D.A. unit) is to extract information from returns and related financial statements for a group of preselected corporations and to manually transfer the information onto computer input worksheets.

For the 1977 taxation year 10,000 corporations were selected. Each worksheet contained 92 items and took an average of one-half hour to complete. The information collected is of limited use to the Corporations Tax Branch and is requested by the Revenue Research Branch and Treasury Ministry for statistical purposes and planning of fiscal policy.

This data collection function requires four F.D.A. clerks and an F.D.A. Co-ordinator on a full time basis and approximately 4 1/2 hours per day in the data entry operation.

#### 7.4.1.2 Tactical Level Alternatives

##### Alternative I

This alternative advocates that the Corporations Tax Branch withdraw from the function of collecting financial data for other agencies and allow them to access selected files to extract information that is of use to them.



### Advantages

- (i) would eliminate the need for Corporations Tax Branch staff to gather statistical data;
- (ii) the Corporations Tax Branch computer system would be simplified and EDP costs would be lowered.

### Disadvantages

- (i) allowing access to certain taxpayer information to other areas is currently prohibited by statute;
- (ii) the information available in selected files might be of limited use to other agencies.

### Alternative II

This alternative considers reducing the number of corporations contained in the F.D.A. sample and also reducing the number of items on the Financial Data Worksheet.

### Advantages

- (i) both the current manpower requirements to manually collect the data and the data entry efforts would be reduced;
- (ii) there would be a resultant reduction in computer system costs.

### Disadvantages

- (i) reducing the size of the sample might impair its usefulness as a representative sample;
- (ii) a reduced sample might make it difficult to represent corporations affected by variable changes.



### Alternative III

This alternative advocates that F.D.A. information be extracted from other sources which have electronic data systems (e.g. the Revenue Canada Corpac files, Stats Canada files, and Dun & Bradstreet).

#### Advantages

- (i) the manpower requirements of data collection and data entry functions would be substantially reduced;
- (ii) the Corporations Tax Branch computer update system would be simplified (although a system of data collection and manipulation would have to be developed).

#### Disadvantages

- (i) all information that is required (such as taxable paid-up capital) might not be available from other sources;
- (ii) required information might not be timely enough and therefore of limited use;
- (iii) the reliability of such information might not be sufficient for comprehensive analysis;
- (iv) a system developed to gather such information might be expensive and complex compared to the benefits received.

### Alternative IV

This alternative proposes the design of a questionnaire similar to the F.D.A. Worksheet to be sent to selected corporations requesting the required information in a format acceptable for data capture.



### Advantages

- (i) the manpower requirements to collect F.D.A. data would be reduced but the data entry function would not change.

### Disadvantages

- (i) taxpayers might be reluctant to complete additional documents for taxing authorities;
- (ii) the information might have to be checked against the taxpayers' returns and financial statements to ensure that information received on the questionnaire was reliable;
- (ii) some questionnaires would not be returned on time, if at all.

### Alternative V

This alternative considers maintaining the present procedure and system but charging back the total costs of the operation to the agencies requesting and utilizing the information.

### Advantages

- (i) The Corporations Tax Branch would be relieved of the financial responsibility of operating the system;
- (ii) the information obtained would continue to be the most reliable information available;
- (iii) security of confidential information would be maintained;
- (iv) manpower resources would be allocated to data collection only to the extent of the budget made available by the requestor.





### Disadvantages

- (i) Branch staff would have to be kept available to service clients' demands, having a detrimental effect on normal operational and support staff;
- (ii) data collection and data entry functions would remain labour intensive.

### Alternative VI

This alternative proposes the elimination of the complete Financial Data Analysis operation.

### Advantages

- (i) the advantage of this alternative is that all costs associated with the function would be eliminated.

### Disadvantages

- (i) the disadvantage of this alternative is that the Branch's capability of providing statistical data on request would be reduced and requests for information would generate additional and costly efforts in order to respond.

### Alternative VII

This alternative advocates expansion of the present return acceptance function and the data base to accommodate the collection of an additional limited number of data items for all corporations. This additional information would be used for financial data analysis.



### Advantages

- (i) some of the data would be captured through the current system;
- (ii) little additional manpower would be required;
- (iii) analysis capabilities would be improved with the larger sample.

### Disadvantages

- (i) information to make varied detail analysis might be limited by the inability to capture large amounts of information from the return.

### Recommendation for Tactical Level Alternatives

Three alternatives are recommended for consideration:-

- (i) The Corporations Tax Branch should eliminate the F.D.A. function as the cost cannot be justified by the use the Branch makes of the accumulated figures;
- (ii) If the Branch is requested to continue gathering statistics, limited information should be added to the return and the data base expanded to allow the capturing of data at the return processing stage;
- (iii) If the current method of capturing F.D.A. statistics remains the responsibility of the Branch, the financial burden should be borne by the requesting agency: the permanent staff currently assigned to the F.D.A. function should be reallocated to other Branch functions: students or temporary staff should be employed for the extended data capture function.



#### 7.4.1.3.1 Implementation Level Alternatives

The alternatives which follow are based on the assumption that the Corporations Tax Branch will retain the responsibility for capturing statistics from information extracted from returns accompanying financial statements and schedules.

##### Alternative I

This alternative proposes that Optical Character Recognition techniques be used to capture information which has been manually entered on the F.D.A. worksheet.

##### Advantages

- (i) would eliminate data entry keying of a large number of data items;
- (ii) data capture would be faster;
- (iii) additional hardware could microfilm the individual worksheets to help decrease storage space and to facilitate the recall of items for individual companies.

##### Disadvantages

- (i) level of accuracy of Optical Character Recognition equipment to read hand written numerals is dependent on the quality of the handwriting;
- (ii) a feasibility study on the suitability of current available equipment would be required.



## Alternative II

This alternative advocates the use of an on-line interactive terminal to enter F.D.A. data into the system.

### Advantages

- (i) paper flow would be minimized;
- (ii) keying and other errors could be corrected as they occur by staff knowledgeable of the data.

### Disadvantages

- (i) higher equipment costs would result as additional terminals will be required;
- (ii) F.D.A. clerks would have to be trained to acquire keying skills.

## Alternative III

This alternative proposes that F.D.A data continue to be entered into the computer system through the centralized data entry operation as in the current practice.

### Advantages

- (i) no additional costs would be incurred;
- (ii) there would be no retraining requirements.

### Disadvantages

- (i) the labour intensity of entering data into the system would remain high.

## Recommendation

It is recommended that, if the F.D.A. programme is retained, the method of entering F.D.A. data remain unchanged and the information continue to be entered into the system through the centralized data entry operation.







